$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS,
SERIES 2007

February 6, 2007

INDEX OF TRANSCRIPT DOCUMENTS

A. BASIC DOCUMENTS

1. Trust Indenture, dated as of February 1, 2007 (the "Trust Indenture"), by and between the Roseville Natural Gas Financing Authority (the "Authority") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee").

2. Preliminary Official Statement, dated January 18, 2007, of the Authority relating to the above-captioned bonds (the "Bonds").

3. Official Statement, dated January 24, 2007, of the Authority relating to the Bonds.

4. Bond Purchase Contract, dated January 24, 2007, by and between the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser").

5. Continuing Disclosure Certificate, dated as of February 6, 2007, by and between the City of Roseville (the "City" or the "Municipality") and the Trustee.

6. Tax Certificate and Agreement, dated as of February 6, 2007, executed by the Authority.

7. The Depository Trust Company Blanket Issuer Letter of Representations.

8. Debt Service Fund Forward Delivery Agreement, dated as of February 1, 2007 (the "Forward Delivery Agreement"), by and among the Trustee, the Authority and Wachovia Bank, National Association (the "Provider").

B. NATURAL GAS PURCHASE AND SALE DOCUMENTS

1. Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "Prepaid Gas Agreement"), by and between Merrill Lynch Commodities, Inc. (the "Gas Supplier") and the Authority.

2. Guarantee, dated February 1, 2007, from Merrill Lynch & Co., Inc. (the "Guarantor"), guaranteeing the payment obligations of the Gas Supplier under the Prepaid Gas Agreement.

3. Funding and Assignment Agreement, dated as of February 1, 2007 (the "Funding Agreement"), between the Gas Supplier and the Authority.

4. Guarantee, dated February 1, 2007, from the Guarantor, guaranteeing the payment obligations of the Gas Supplier under the Funding Agreement.

5. Natural Gas Supply Agreement, dated as of February 1, 2007, by and between the Municipality and the Authority.

6. Certificate of Gas Supplier, as required by Sections 22.3.4 and 22.3.5(b) of the Prepaid Gas Agreement.

7. Certificate of Gas Supplier, as required by Section 6(c)(xi) of the Bond Purchase Contract.

8. Certificate of Guarantor, as required by Sections 22.3.2 and 22.3.6(b) of the Prepaid Gas Agreement.

9. Certificate of the Guarantor, as required by Section 6(c)(xi) of the Bond Purchase Contract.

C. ROSEVILLE NATURAL GAS FINANCING AUTHORITY DOCUMENTS

1. Certificate of Secretary of the Authority.

2. Notice of a Joint Powers Agreement, as certified by the California Secretary of State (the "Secretary of State"), and Statement of Facts Roster of Public Agencies Filing, as certified by the Secretary of State and Placer County.

3. Certificate as to Board of Directors and officers of the Authority and their signatures.

4. Written Request of the Authority.

5. Certificate as to Specimen Bonds.

6. Certificate of the Authority, as required by Section 22.2.3 of the Prepaid Gas Agreement and Section 6(c)(vii) of the Bond Purchase Contract.

7. Certificate of the Authority as to Finality of Preliminary Official Statement relating to the Bonds.

8. Requisition No. 1 (Costs of Issuance Fund).

9. Requisition No. 1 (Gas Prepayment Fund).

D. CITY OF ROSEVILLE DOCUMENTS

1. Certificate of City Clerk.

2. Certificate as to City Council and Officers of the City and their signatures.

3. Certificate of the Municipality, as required by Section 6(c)(viii) of the Bond Purchase Contract.

E. SWAP DOCUMENTS

1. ISDA Master Agreement, dated as of January 24, 2007, by and between the Authority and JPMorgan Chase Bank, National Association ("JPMorgan Chase bank"), together with the Schedule, Credit Support Annex and Confirmation.

2. Certificate of JPMorgan Chase Bank regarding the Official Statement.

3. ISDA Master Agreement, dated as of January 24, 2007, by and between the Gas Supplier and JPMorgan Chase Bank, together with the Schedule and Confirmation.

F. CUSTOMER INSURANCE POLICY PROVIDER DOCUMENTS

1. Customer Insurance Policy Commitment issued by Financial Security Assurance Inc. (the "Customer Insurance Policy Provider").

2. Specimen Financial Guaranty Insurance Policy No. 208094-NGP, together with Endorsement No. 1, issued by the Customer Insurance Policy Provider.

3. Reimbursement Agreement, dated as of February 1, 2007, by and between the Customer Insurance Policy Provider and the Municipality.

4. Certificate of Customer Insurance Policy Provider regarding the Official Statement.

G. TRUSTEE DOCUMENTS

1. Certificate of the Trustee, as required by Section 6(c)(xvii) of the Bond Purchase Contract, together with Secretary's Certificate, Extracts from By-Laws of Trustee and Signing Authority Resolution.

H. PURCHASER DOCUMENTS

1. Receipt for the Bonds.

2. Preliminary Blue Sky Survey, dated January 18, 2007, and Final Blue Sky Survey, dated January 24, 2007, with respect to the Bonds.

I. LEGAL OPINIONS

1. Approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, as required by Section 6(c)(ii) of the Bond Purchase Contract.

2. Supplemental opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, as required by Section 6(c)(iii) of the Bond Purchase Contract.

3. Reliance letter on final opinion of Orrick, Herrington & Sutcliffe LLP, addressed to the Purchaser and the Trustee.

4. Opinion of Orrick, Herrington & Sutcliffe LLP, as special counsel to the Authority, as required by Section 22.2.6 of the Prepaid Gas Agreement.

5. Opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, with respect to the Commodity Swap.

6. Opinion of Orrick, Herrington & Sutcliffe LLP, as special counsel to the Municipality, addressed to the Customer Insurance Policy Provider.

7. Opinion of the City Attorney as counsel to the Authority, addressed to the Purchaser, as required by Section 6(c)(iv) of the Bond Purchase Contract.

8. Opinion of the City Attorney addressed to the Authority and the Purchaser, as required by Section 6(c)(v) of the Bond Purchase Contract.

9. Opinion of the City Attorney as counsel to the Authority, addressed to the Trustee, as required by Section 2.03(ii) and Section 2.03(viii) of the Trust Indenture.

10. Opinion of the City Attorney as counsel to the Authority, addressed to the Gas Supplier, as required by Section 22.2.6 of the Prepaid Gas Agreement.

11. Opinion of the City Attorney, as required by Appendix A of the Customer Insurance Policy Commitment.

12. Opinion of the City Attorney as counsel to the Authority, addressed to the Trustee and the Provider, as required by Section 6.01(c) of the Forward Delivery Agreement.

13. Opinion of Nixon Peabody LLP, counsel to the Purchaser, addressed to the Underwriter, as required by Section 6(c)(vi) of the Bond Purchase Contract.

14. Opinion of Jackson Walker LLP, counsel to the Gas Supplier and the Guarantor, addressed to the Authority, as required by Section 22.3.5 and Section 22.3.6 of the Prepaid Gas Agreement.

15. Reliance letter of opinion from Jackson Walker LLP addressed to the Provider.

16. Opinion of Managing Director and Associate General Counsel of JPMorgan Chase Bank, addressed to the Authority.

17. Opinion of Associate General Counsel to the Customer Insurance Policy Provider, addressed to the Authority, the Trustee and the Purchaser, as required by Section 6(c)(x) of the Bond Purchase Contract.

18. Opinion of Jensen Law Office, as special counsel to the Trustee.

19. Opinion of Kutak Rock LLP, as counsel to the Provider.

J. MISCELLANEOUS

1. Evidence of filings with the California Debt and Investment Advisory Commissioner.

2. Certificate of Secretary of the Redevelopment Agency of the City of Roseville.

3. Internal Revenue Service Form 8038-G.

4. Rating Letters of Standard & Poor's Rating Services, Moody's Investors Service, Inc. and Fitch Ratings, Ltd.

5. Certificate of the Provider.

6. Closing Memorandum.

7. Interested Parties List.

EXECUTION COPY

TRUST INDENTURE

BETWEEN

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

AND

THE BANK OF NEW YORK TRUST COMPANY, N. A., AS TRUSTEE

GAS REVENUE BONDS
SERIES 2007

DATED AS OF FEBRUARY 1, 2007

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Exhibit A Form of Bonds A-1

Schedule I – Scheduled Debt Service Deposits

Schedule II – Terms of Commodity Swaps

Schedule III – Amortized Value

This TRUST INDENTURE, dated as of February 1, 2007 (this "*Indenture*"), by and between the ROSEVILLE NATURAL GAS FINANCING AUTHORITY, established under the laws of the State of California, (*the "Authority*") and THE BANK OF NEW YORK TRUST COMPANY, N. A., a national banking association, duly organized and existing under and by virtue of the laws of the United States of America and authorized to accept and execute trusts of the character herein set out, with a corporate trust office located at 550 Kearny Street, Suite 600, San Francisco, California 94108-2527, as trustee under this Indenture (the "*Trustee*"),

WITNESSETH:

WHEREAS, the Authority is authorized pursuant to the provisions of the Act (capitalized terms used herein shall have the meanings given such terms pursuant to Section 1.01) to acquire supplies of natural Gas by any means, to enter into agreements with respect to the acquisition of rights to the supplies of natural Gas obtained, and to issue revenue bonds to finance the cost of acquisition of such supplies, and is vested with all powers necessary to accomplish the purposes for which it was created;

WHEREAS, the Authority and the Municipality have investigated the feasibility and desirability of purchasing natural Gas in order to, among other things, provide fuel for the Municipality;

WHEREAS, the Authority and the Municipality desire to acquire a supply of natural Gas;

WHEREAS, the Authority and the Municipality have entered into the Supply Agreement pursuant to which the Authority will sell natural Gas from the Gas Supply to the Municipality;

WHEREAS, the Authority intends to finance the Cost of Acquisition of the Gas Supply through the issuance of Bonds pursuant hereto;

WHEREAS, the Authority desires to provide for the securing of the Bonds as provided in this Indenture;

WHEREAS, the execution and delivery of this Indenture has been in all respects duly and validly authorized and approved by resolution of the Board of Directors of the Authority; and

WHEREAS, the Trustee is willing to accept the trust provided for in this Indenture;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, the Authority and the Trustee agree as follows for the benefit of the other and for the benefit of the Owners of the Bonds issued pursuant hereto:

GRANTING CLAUSES

For and in consideration of the premises, the mutual covenants of the Authority and the Trustee and the purchase of the Bonds by the Owners thereof and in order to secure the payment of the principal of and premium, if any, and interest on the Bonds according to their tenor and effect and the performance and observance by the Authority of all the covenants expressed or implied herein and in the Bonds, the Authority does hereby convey, assign and pledge unto the

Trustee and unto its successors in trust, and to it and its assigns forever all right, title and interest of the Authority in and to the Trust Estate, subject to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture, and all other rights hereinafter granted for the further securing of the Bonds;

TO HAVE AND TO HOLD all the same with all privileges and appurtenances hereby and hereafter conveyed and assigned, or agreed or intended so to be, to the Trustee and its respective successors in said trust and assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Owners of the Bonds issued pursuant to and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any Bond over any other Bond or the payment of interest with respect to any Bond over the payment of interest with respect to any other Bond, except as otherwise provided herein; and

PROVIDED, HOWEVER, that if the Authority, its successors or assigns, shall well and truly pay, or cause to be paid, the principal or Redemption Price, if any, on the Bonds and the interest due or to become due thereon, at the times and in the manner mentioned in the Bonds, respectively, according to the true intent and meaning thereof, and shall cause the payments to be made into the Funds as required hereunder, or shall provide, as permitted hereby, for the payment thereof as provided in Section 12.01, and shall well and truly keep and perform and observe all the covenants and conditions of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then upon such final payments or provisions for such payments by the Authority, the Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and be discharged and satisfied; otherwise this Indenture shall remain in full force and effect.

The terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all Persons who from time to time shall be or become the Owners thereof, and the trusts and conditions upon which the Revenues, moneys, securities and funds held or set aside under this Indenture, subject to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture, are to be held and disposed of, which said trusts and conditions the Trustee hereby accepts, and the respective parties hereto covenant and agree, are as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions. The following terms shall, for all purposes of this Indenture, have the following meanings:

"Accountant's Certificate" means a certificate signed by an independent certified public accountant or a firm of independent certified public accountants, selected by the Authority, who may be the accountant or firm of accountants who regularly audit the books of the Authority.

"Act" means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended from time to time.

"Amortized Value" means, with respect to any Bond to be redeemed, the principal amount of such Bond multiplied by the price of such Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of delivery of the Bonds), with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bond and a yield equal to such Bond's original reoffering yield, which, in the case of certain dates, produces the amounts for all of the Bonds set forth in Schedule III hereto.

"Annual Transaction Report" shall have the meaning ascribed in Section 7.09(b).

"Authority" means Roseville Natural Gas Financing Authority, a joint exercise of powers agency organized and existing under the Act and the Joint Exercise of Powers Agreement, dated as of November 1, 2006, as amended from time to time, and its successors and assigns.

"Authorized Denominations" means $5,000 and any integral multiple thereof.

"Authorized Officer" means the Executive Director of the Authority and any other officer or employee of the Authority authorized to perform specific acts or duties by resolution duly adopted by the Authority.

"Beneficial Owner" means, with respect to Bonds registered in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Bond held by the Securities Depository.

"Book-Entry System" means the system maintained by the Securities Depository and described in Section 3.09.

"Board" means the Board of Directors of the Authority, or if said Board shall be abolished, the board, body, commission or agency succeeding to the principal functions thereof or to whom the power and duties granted or imposed by this Indenture shall be given by law.

"Bond" or "Bonds" means any of the Authority's Gas Revenue Bonds, Series 2007 authorized by Section 2.01 hereof.

"Bond Counsel" means an attorney or firms of attorneys of recognized national standing in the field of law relating to municipal bonds and the exclusion of interest on municipal bonds from gross income for federal income tax purposes selected by the Authority.

"Bond Payment Date" means each date on which (a) interest on the Bonds is due and payable or (b) principal of Bonds is payable at maturity.

"Bond Register" means the books for the registration of the ownership and the transfer of ownership of the Bonds maintained by the Trustee pursuant to Section 3.04.

"Business Day" means any day excluding (a) a Saturday or Sunday, any day on which banks located in the State of California or the State of New York, are required or authorized by law or other governmental action to close, and (b) any day on which the New York Mercantile Exchange or the Trustee is closed.

"Cede" means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Bonds pursuant to Section 3.09.

"Commodity Swap" means the ISDA Master Agreement, Schedule and Confirmation between the Authority and the Swap Counterparty, or any replacement agreement permitted by Section 2.04(b), pursuant to which the Authority will pay to the Swap Counterparty an index-based floating price and the Swap Counterparty will pay to the Authority a fixed price in relation to the daily quantities of Gas to be delivered under the Prepaid Gas Agreement.

"Commodity Swap Payments" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Swap Counterparty by the Authority.

"Commodity Swap Receipts" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Authority by the Swap Counterparty.

"*Costs of Issuance*" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the original authorization, execution, sale and delivery of Bonds or related to the original authorization, execution, and delivery of the Commodity Swap, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, including disclosure documents and documents, initial fees and charges (including counsel fees) of the Trustee; legal fees and charges, financial advisor fees and expenses, fees and expenses of other consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds; the premium for the Customer Insurance Policy; and any other cost, charge or fee in connection with the authorization, issuance, sale or original delivery of Bonds and the entry into the Commodity Swap.

"*Cost of Issuance Fund*" means the Fund so designated established pursuant to Section 5.02.

"Covered General Deficiency" shall have the meaning ascribed in the Funding Agreement.

"Covered Swap Deficiency" shall have the meaning ascribed in the Funding Agreement.

"Covered Termination Deficiency" shall have the meaning ascribed in the Funding Agreement.

"*Customer Insurance Policy*" means the financial guaranty insurance policy issued by the Customer Insurance Provider insuring certain payments by Municipality under the Supply Agreement.

"*Customer Insurance Provider*" means Financial Security Assurance Inc.

"Debt Service Fund" means the Debt Service Fund established in Section 5.02.

"Defaulted Interest" shall have the meaning given to such term in Section 3.08.

"Defeasance Securities" means (a) Government Obligations and (b) time deposits and certificates of deposit to the extent that such deposits or certificates of deposit are Qualified Investments, and such interest-bearing time deposits or certificates of deposit which shall not be subject to redemption or repayment prior to their maturity or due date other than at the option of the depositor or holder thereof or as to which an irrevocable notice of redemption or repayment, or irrevocable instructions have been given to call for redemption or repayment, of such time deposits or certificates of deposit on a specified redemption or repayment date has been given and such time deposits or certificates of deposit are not otherwise subject to redemption or repayment prior to such specified date other than at the option of the depositor or holder thereof, and which are fully secured by Government Obligations to the extent not insured by the Federal Deposit Insurance Corporation.

"Depository" means any bank, trust company, national banking association, savings and loan association, savings bank or other banking association selected by the Authority as a depository of moneys and securities held under the provisions of this Indenture, and may include the Trustee.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Early Redemption Date" means the date which is the last day of the Month which follows the Month in which the Early Termination Date occurs.

"Early Termination Date" has the meaning given such term in the Prepaid Gas Agreement.

"Early Termination Payment Date" means the date which is two (2) Business Days after the Early Termination Date.

"Event of Default" shall have the meaning given to such term in Section 8.01.

"Favorable Opinion of Bond Counsel" means an Opinion of Bond Counsel to the effect that an action proposed to be taken is not prohibited by this Indenture or the laws of the State and will not adversely affect the Tax-Exempt Status of the Bonds.

"Fiscal Year" means (a) the twelve (12) Month period beginning on July 1 of each year and ending on the next June 30, or (b) such other twelve (12) Month period established by the Authority from time to time, upon Written Notice to the Trustee, as its fiscal year.

"Fitch" means Fitch, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the Trustee.

"Forward Purchase Agreement" means a written agreement among the Trustee, the Authority and a Qualified Provider to purchase securities which are Qualified Investments for a Fund with moneys to be deposited in such Fund during the term of such agreement.

"Fund" or "Funds" means, as the case may be, each or all of the Funds established in Section 5.02.

"Funding Agreement" means that certain Funding and Assignment Agreement, dated as of January 24, 2007, between the Authority and the Funding Provider, as the same may be amended and supplemented.

"Funding Guarantee" means the Guarantee, dated February 1, 2007, from Merrill Lynch & Co. guaranteeing the payment obligations of the Funding Provider under the Funding Agreement.

"Funding Provider" means Merrill Lynch Commodities, Inc.

"Gas" shall have the meaning as set forth in the Supply Agreement.

"Gas Supply" means the Authority's purchase of Gas pursuant to the Prepaid Gas Agreement and related contractual arrangements and agreements, and the purchase of any Gas to replace Gas not delivered as required pursuant to the Prepaid Gas Agreement.

"Gas Supplier" means Merrill Lynch Commodities, Inc.

"Government Obligations" means

(a) Non-callable obligations which are: (i) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America; or (ii) obligations unconditionally guaranteed as to principal and interest by the United States of America; or (iii) evidences of ownership interests in such direct or unconditionally guaranteed obligations;

(b) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which: (i) are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice; (ii) are rated in the highest Rating Category of S&P and Moody's; and (iii) are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in clause (a) above, which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable notice, as appropriate; and

(c) Any other bonds, notes or obligations of the United States of America or any agency or instrumentality thereof which, if deposited with the Trustee for the purpose described in Section 12.01(c), will result in a rating on the Bonds which are deemed to have been

paid pursuant to Section 12.01(c) that is in the highest Rating Category of each Rating Agency that is then maintaining a rating on such Bonds.

"Guarantee" means the Guarantee, dated February1, 2007, from Merrill Lynch & Co. guaranteeing the payment obligations of the Gas Supplier under the Prepaid Gas Agreement.

"Indenture" means this Trust Indenture as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms hereof.

"Interest Payment Date" means February 15 and August 15 of each year, commencing August 15, 2007.

"Internal Revenue Code" means the Internal Revenue Code of 1986.

"Mandatory Swap Advance" shall have the meaning ascribed in the Funding Agreement.

"Mandatory Termination Advance" shall have the meaning ascribed in the Funding Agreement.

"Month" means a calendar month.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the Trustee.

"Municipality" means the City of Roseville, California, a municipal corporation and chartered city of the State.

"Operating Fund" means the Operating Fund established in Section 5.02.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel addressed to the Authority and delivered to the Trustee.

"Opinion of Counsel" means an opinion signed by an attorney or firm of attorneys (who may be counsel to the Authority) selected by the Authority.

"Outstanding," when used with reference to Bonds, means as of any date, Bonds theretofore or thereupon being authenticated and delivered under this Indenture except:

(a) Bonds cancelled (or portions thereof deemed to have been cancelled) by the Trustee at or prior to such date;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 4.05 or Section 11.06; and

(c) Bonds deemed to have been paid as provided in Section 12.01.

"Owner" means any Person who shall be the registered owner of any Bond or Bonds.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as Securities Depository.

"Person" means natural persons, firms, associations, corporations and public bodies.

"Prepaid Gas Agreement" means the Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007, between the Authority and the Gas Supplier, as the same may be amended from time to time.

"Prepayment" means the prepayment for the Gas Supply required by Section 4 of the Prepaid Gas Agreement.

"Project Fund" means the Project Fund established in Section 5.02.

"Qualified Investments" means any of the following investments, if and to the extent that the same are at the time legal investments of the Authority's funds:

(a) Government Obligations;

(b) Bonds, debentures, notes and other evidences of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies or corporations:

(1) Federal Home Loan Bank System - senior debt obligations;

(2) Federal Home Loan Mortgage Corporation – participation certificates and senior debt obligations;

(3) Federal National Mortgage Association – mortgage-backed securities and senior debt obligations;

(4) Resolution Funding Corporation; and

(5) Farm Credit System – consolidated system-wide bonds and notes;

(c) Certificates of deposit and other evidences of deposit at state and federally chartered banks, savings and loan institutions or savings banks deposited having a rating of not less than P-1 by Moody's and A-1+ by S&P and collateralized as required by law, including those of the Trustee and its affiliates;

(d) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity having a rating of not less than Aa3 by Moody's and AA- by S&P so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;

(e) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one of the two highest

Rating Categories of a Rating Agency; or with entities which have collateralized their obligations under such agreements with obligations described in (a) or (b) above;

(f) Corporate bonds rated at least Aa3 by Moody's and AA- by S&P;

(g) Direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest Rating Categories of a Rating Agency;

(h) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by or on behalf of the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of principal of and interest on such obligations, rated in one of the two highest Rating Categories by a Rating Agency;

(i) Money market funds registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, and having a rating by S&P of AAA-m-G, AAA-m, or AA-m or a rating by Moody's of Aaa, Aa1, or Aa2, including funds for which the Trustee or its affiliates provide investment or other management services; or

(j) Any other investments permitted by applicable law for the investment of the funds of the Authority, including commercial paper, which are rated at least Aa3 or P-1 by Moody's and AA- or A-1+ by S&P.

"Qualified Provider" means a financial institution which is a domestic or foreign bank, broker-dealer, or insurance company having a long-term debt rating in one of the two highest Rating Categories by Moody's, S&P and Fitch or whose obligations under a Forward Purchase Agreement are guaranteed by an entity having a long-term debt rating in one of the two highest Rating Categories by Moody's, S&P and Fitch; provided that if such bank, broker-dealer, or insurance company (or, if applicable, its guarantor) is no longer rated at least Aa3 by Moody's or AA- by S&P or AA- by Fitch, the Trustee and the Authority shall require such bank, broker-dealer, or insurance company to post such collateral or make such other security arrangements as the Authority shall determine are appropriate for its interests and upon the posting of such collateral or the making of such other security arrangements as the Authority shall determine are appropriate for its interests, such bank, broker-dealer, or insurance company shall continue to be a Qualified Provider.

"Rating Agency" means each of Moody's, S&P and Fitch or any other rating agency so designated in a Supplemental Indenture.

"Rating Category" means one or more of the generic rating categories of a Rating Agency, without regard to any refinement or gradation of such rating category or categories by a numerical modifier, plus or minus signs, or otherwise.

"Rating Confirmation" means evidence satisfactory to the Trustee that upon the effectiveness of any proposed action, all Outstanding Bonds will continue to be assigned at least

the same or equivalent ratings (including the same or equivalent numerical or other modifiers within a Rating Category) by each Rating Agency then rating such Outstanding Bonds.

"Rebate Fund" means the Rebate Fund established in Section 5.02.

"Rebate Payments" means those portions of moneys or securities held in any Fund hereunder that are required to be paid to the United States Treasury Department under the requirements of Section 148(f) of the Internal Revenue Code.

"Redemption Fund" means the Redemption Fund established in Section 5.02.

"Redemption Price" means, with respect to any Bond, the amount payable upon redemption thereof pursuant to such Bond or this Indenture other than any amounts due as accrued but unpaid interest.

"Regular Record Date" shall have the meaning given to such term in Section 3.08.

"Revenue Fund" means the Revenue Fund established in Section 5.02.

"Revenues" means: (a) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Authority from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Authority under the Supply Agreement, the Prepaid Gas Agreement, the Guarantee, the Customer Insurance Policy or otherwise payable to it for the sale and/or transportation of Gas or otherwise with respect to the Gas Supply; (b) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (c) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to this Indenture and paid or required to be paid into the Revenue Fund; (d) any Commodity Swap Receipts received by the Authority; and (e) any amounts paid under the Funding Agreement or the Funding Guarantee; but excluding from subsection (a) above the following items (i) any Termination Amount; (ii) any Unearned Amount; (iii) amounts paid by or on behalf of the Authority for the mandatory redemption of Bonds pursuant to Section 4.01(b); (iv) amounts paid under the Supply Agreement after the termination thereof; and (v) upfront payments made by a Qualified Provider; and excluding from subsection (e) above, any amounts paid as a Mandatory Termination Advance (as defined in the Funding Agreement) and any amounts advanced under the Funding Guarantee in connection with a Mandatory Termination Advance.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if such entity shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the Trustee.

"Scheduled Debt Service Deposits" means the required Monthly deposits to the Debt Service Fund or the required cumulative deposits in respect of the principal and interest payments coming due on the Bonds on each Interest Payment Date or date for payment of maturing principal, all as set forth on Schedule I hereto.

"Securities Depository" means DTC, or its nominee, and its successors and assigns.

"Special Record Date" shall have the meaning given to such term in Section 3.08.

"State" means the State of California.

"Supplemental Indenture" means any indenture supplemental to or amendatory of this Indenture executed and delivered by the Authority and the Trustee in accordance with Article X.

"Supply Agreement" means the contract for the sale by the Authority of Gas from or attributable to the Gas Supply to the Municipality, as the same may be amended from time to time in accordance with the terms thereof and this Indenture.

"Swap Counterparty" means, with respect to the initial Commodity Swap, JP Morgan Chase Bank, N.A., and any successor to the foregoing, or, if any such Commodity Swap is replaced, the counterparty to such replacement Commodity Swap satisfying the requirements of Section 2.04.

"Swap Payment Fund" means the Swap Payment Fund established in Section 5.02.

"Tax Agreement" means the Tax Certificate and Agreement between the Authority and the Municipality, dated as of the date of issuance and delivery of the Bonds.

"Tax-Exempt Status of the Bonds" means that the status of the Bonds is such that interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, with the exception that, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings.

"Termination Amount" has the meaning given to such term in the Prepaid Gas Agreement.

"Termination Fund" means the Termination Fund established in Section 5.02.

"Trustee" means The Bank of New York Trust Company, N. A., and its successor or successors and any other corporation or national banking association which may at any time be substituted in its place pursuant to this Indenture.

"Trust Estate" means (a) the proceeds of the sale of the Bonds, (b) all right, title and interest of the Authority in, to and under the Prepaid Gas Agreement, the Guarantee, the Supply Agreement, the Funding Agreement and the Funding Guarantee (c) the Revenues, (d) any Termination Amount, (e) any Mandatory Termination Payment and (f) all Funds established by this Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof; subject with respect to clauses (a), (c), (d), and (e) to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein.

"Unearned Amount" has the meaning given to such term in the Prepaid Gas Agreement.

(1) *"Written Certificate of the Authority," "Written Direction of the Authority," "Written Notice of the Authority," "Written Request of the Authority" and "Written Statement of the Authority"* means an instrument in writing signed on behalf of the Authority by an Authorized Officer thereof. Any such instrument and any supporting opinions or certificates may, but need not, be combined in a single instrument with any other instrument, opinion or certificate, and the two or more so combined shall be read and construed so as to form a single instrument. Any such instrument may be based, insofar as it relates to legal, accounting or engineering matters, upon the opinion or certificate of counsel, consultants, accountants or engineers, unless the Authorized Officer signing such Written Certificate, Direction, Notice, Request or Statement knows, or in the exercise of reasonable care should know, that the opinion or certificate with respect to the matters upon which such Written Certificate, Direction, Notice, Request or Statement may be based, as aforesaid, is erroneous. The same Authorized Officer, or the same counsel, consultant, accountant or engineer, as the case may be, need not certify to all of the matters required to be certified under any provision of this Indenture, but different Authorized Officers, counsel, consultants, accountants or engineers may certify to different facts, respectively.

Section 1.02 Captions. The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope and intent of any provisions of this Indenture.

Section 1.03 Rules of Construction. Except where the context otherwise requires, words of any gender shall include correlative words of the other genders; words importing the singular number shall include the plural number and vice versa; and words importing persons shall include firms, associations, trusts, corporations or governments or agencies or political subdivisions thereof. The term "include" and its derivations are not limiting.

References to Articles and Sections are references to the Articles and Sections of this Indenture. References to the Commodity Swap are references to the Commodity Swap then in effect.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF BONDS

Section 2.01 Authorization of Bonds. There are hereby authorized to be issued under Article 4 of the Act and pursuant to the provisions of this Indenture, an issue of bonds in the aggregate principal amount of $209,350,000 to be designated, and distinguished from all other bonds by the title, " Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007" entitled to the benefit, protection and security of such provisions, for the purpose of financing the Prepayment under the Supply Agreement, making deposits into certain Funds hereunder as provided in Section 2.05, and paying the Costs of Issuance.

Section 2.02 Terms of Bonds; Payment. The Bonds shall be dated as of the date of the initial authentication and delivery thereof, shall bear interest from such date, payable on each Interest Payment Date, and shall be subject to redemption as provided in Article IV. The principal and Redemption Price of and interest on the Bonds shall be payable at the principal corporate trust office of the Trustee in San Francisco, California (or such other office as shall be designated by the Trustee or any successor Trustee); *provided, however*, that interest on the Bonds shall be paid by check of the Trustee payable to the order of the Owner as of the applicable Regular Record Date (or if a Special Record Date has been established with respect to Defaulted Interest, the applicable Special Record Date), and mailed by first class mail, postage prepaid, to the address of such Owner as shall appear on the Bond Register.

The Bonds shall mature on February 15 of each of the years and in the principal amounts, and shall bear interest at the rates, set forth below:

Maturity (February 15)	**Principal Amount**	**Interest Rate**
2009	$6,645,000	4.000%
2010	6,650,000	4.000
2011	6,915,000	5.000
2012	7,265,000	5.000
2013	7,675,000	5.000
2014	8,030,000	5.000
2015	8,435,000	5.000
2016	8,860,000	5.000
2017	9,345,000	5.000
2018	9,780,000	5.000
2019	10,275,000	5.000
2020	10,800,000	5.000
2021	11,385,000	5.000
2022	11,920,000	5.000
2023	12,520,000	5.000
2024	13,155,000	5.000
2025	13,865,000	5.000
2026	14,530,000	5.000
2027	15,265,000	5.000
2028	16,035,000	5.000

Section 2.03 Conditions for Issuance of Bonds. All the Bonds shall be executed by the Authority for issuance under this Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the Authority or upon its order, but only upon the receipt by the Trustee of:

(i) A copy, certified by an Authorized Officer, of a resolution and/or evidence of any other official actions taken by the Authority which authorize the execution and delivery of the Bonds, together with a Written Request as to the authentication and delivery of the Bonds, signed by an Authorized Officer;

(ii) An Opinion or Opinions of Counsel to the effect that (A) the Authority has the right and power to authorize and enter into this Indenture, the Supply Agreement, the Prepaid Gas Agreement and the Commodity Swap, and (B) this Indenture, the Supply Agreement, the Prepaid Gas Agreement and the Commodity Swap have been duly and lawfully authorized, executed and delivered by the Authority, are in full force and effect and (assuming due authorization, execution and delivery by and validity against the other parties thereto) are valid and binding obligations of the Authority; provided, that such Opinion may take exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights generally and judicial discretion, the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America and may state that no opinion is being rendered as to the availability of any particular remedy;

(iii) An Opinion of Bond Counsel to the effect that (A) the Bonds constitute the valid and binding special obligations of the Authority; (B) this Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority; (C) this Indenture creates a valid pledge of the Trust Estate to secure the payment of principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to this Indenture, except the Rebate Fund, subject to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture; (C) the Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge; and (D) interest on the Bonds is excluded from gross income for federal income taxes purposes under Section 103 of the Internal Revenue Code and is exempt from State of California personal income taxes; provided, that such Opinion of Bond Counsel may take exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and that no opinion is being rendered with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions under the financing documents;

(iv) An executed counterpart or certified copy of the Supply Agreement;

(v) The executed Guarantee;

(vi) An executed counterpart or certified copy of the Funding Agreement;

(vii) The executed Funding Guarantee;

(viii) An opinion of counsel to the Municipality that, with respect to the Municipality, the Supply Agreement has been duly executed and delivered and, assuming

due authorization, execution and delivery by the Authority, the Supply Agreements, a valid and binding obligation of the Municipality; provided, that such opinion may take exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights generally and judicial discretion and the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America and may state that no opinion is being rendered as to the availability of any particular remedy; and

(ix) A letter from Moody's rating the Bonds at least Aa3, a letter from S&P rating the Bonds at least AA- and a letter from S&P rating the Bonds at least AA-.

Section 2.04 Provisions Regarding Commodity Swap. (a) In connection with the Gas Supply the Authority shall enter into the initial Commodity Swap with the Swap Counterparty. The following shall apply to the initial Commodity Swap and any replacement Commodity Swap:

(i) The method for the calculation of the Commodity Swap Payments and Commodity Swap Receipts, as applicable, and the scheduled payment dates therefor are set forth in Schedule II hereto.

(ii) Commodity Swap Payments shall be made by the Authority out of the Swap Payment Fund.

(iii) At any time the Swap Counterparty is not rated at least Aa3 by Moody's, AA- by S&P, and AA- by Fitch, the Swap Counterparty shall post such collateral or make such security arrangements as are specified in the initial Commodity Swap and at any time the Swap Counterparty is not rated at least A1 by Moody's, A+ by S&P, and A+ by Fitch, the Authority shall use its best efforts to replace such Swap Counterparty and enter into a successor Commodity Swap.

(iv) At the time of entering into a Commodity Swap, each Swap Counterparty shall be a member of International Swaps and Derivatives Association, Inc. and rated at least Aa3 by Moody's, AA- by S&P and AA- by Fitch.

(v) Commodity Swap Receipts received by the Authority shall be deposited directly into the Revenue Fund.

(b) The Authority may replace any Commodity Swap then in effect with a similar agreement upon delivery to the Trustee of a Rating Confirmation.

Section 2.05 Application of Proceeds of Bonds. The proceeds of the sale of the Bonds (consisting of the $209,350,000 principal amount of the Bonds plus $15,454,116.15 of original issue premium less underwriter's discount of $1,008,153.28 and less the $124,992.00 wired to the Customer Insurance Provider as the premium for the Customer Insurance Policy) shall be applied simultaneously with the delivery of the Bonds, as follows:

(a) There shall be deposited in the Debt Service Fund the sum of $10,391,964.17 which shall be used to pay interest on the Bonds on August 15, 2007 and February 15, 2008;

(b) There shall be deposited in the Project Fund the sum of $212,661,363.06; and

(c) There shall be deposited in the Cost of Issuance Fund the balance of $617,643.64.

The Trustee may, in its discretion, establish a temporary Fund or account to facilitate or account for the foregoing deposits.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.01 Medium of Payment; Form and Date; Letters and Numbers. (a) The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(b) The Bonds may be issued only in the form of fully registered Bonds without coupons, in Authorized Denominations. The Bonds shall be in substantially the form set forth in Exhibit A hereto, and may be printed, engraved, typewritten or otherwise produced.

(c) Unless the Authority shall otherwise direct, the Bonds shall be numbered from one upward.

Section 3.02 Legends. The Bonds may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Indenture as may be necessary or desirable to comply with custom, the rules of any securities exchange or commission or brokerage board, or otherwise, as may be determined by the Authority prior to the authentication and delivery thereof.

Section 3.03 Execution and Authentication. (a) The Bonds shall be executed in the name of the Authority by the manual or facsimile signature of its Executive Director and attested by the manual or facsimile signature of its Secretary, or in such other manner as may be required or permitted by law. In case any one or more of the officers who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed such Bonds had not ceased to hold such offices. Any Bond of may be signed on behalf of the Authority by such persons as at the time of the execution of such Bonds shall be duly authorized or hold the proper office in the Authority, although at the date borne by the Bonds such persons may not have been so authorized or have held such office.

(b) The Bonds shall bear thereon a certificate of authentication, in the form set forth in Exhibit A hereto, executed manually by the Trustee. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Indenture and that the Owner thereof is entitled to the benefits of this Indenture.

Section 3.04 Exchange, Transfer and Registry. (a) The ownership of Bonds shall be registered and transferred only upon the books of the Authority (the "Bond Register"), which shall be kept for such purposes at the principal corporate trust office of the Trustee, by the Owners thereof in person or by their attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or its duly authorized attorney. Upon the registration of transfer of any Bond, the Authority shall issue in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and maturity as the surrendered Bond.

(b) The Owner of any Bond or Bonds of a denomination greater than the minimum Authorized Denomination shall have the right to exchange such Bond or Bonds for a new Bond or Bonds of any Authorized Denominations of the same aggregate principal amount and maturity as the surrendered Bond or Bonds. Such Bond or Bonds shall be exchanged by the Authority for a new Bond or Bonds upon the request of the Owner thereof in person or by its attorney duly authorized in writing, upon surrender of such Bond or Bonds together with a written instrument requesting such exchange satisfactory to the Trustee duly executed by the Owner or its duly authorized attorney.

(c) The Authority and the Trustee may deem and treat the Person in whose name any Bond shall be registered upon the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such registered Owner or upon its order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

Section 3.05 Regulations with Respect to Exchanges and Registration of Transfers. In all cases in which the privilege of exchanging or registering the transfer of Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Indenture. All Bonds surrendered in any such exchanges or registration of transfer shall forthwith be delivered to the Trustee and cancelled or retained by the Trustee. Prior to every such exchange or registration of transfer of Bonds, whether temporary or definitive, the Authority or the Trustee may require the Owner to pay an amount sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Unless otherwise provided in a Supplemental Indenture, neither the Authority nor the Trustee shall be required (a) to register the transfer of or exchange Bonds for the period next preceding any Interest Payment Date for the Bonds, beginning with the Regular

Record Date for such Interest Payment Date and ending on such Interest Payment Date, or for the period next preceding any date for the proposed payment of Defaulted Interest with respect to such Bonds beginning with the Special Record Date for the date of such proposed payment and ending on the date of such proposed payment, (b) to register the transfer of or exchange Bonds for a period beginning 15 days before the mailing of any notice of redemption and ending on the day of such mailing, or (c) to register the transfer of or exchange any Bonds called for redemption.

Section 3.06 Bonds Mutilated, Destroyed, Stolen or Lost. If any Bond becomes mutilated or is lost, stolen or destroyed, the Authority may execute and the Trustee shall authenticate and deliver a new Bond of like date of issue, maturity date, principal amount and interest rate per annum as the Bond so mutilated, lost, stolen or destroyed, provided that (a) in the case of such mutilated Bond, such Bond is first surrendered to the Authority, (b) in the case of any such lost, stolen or destroyed Bond, there is first furnished evidence of such loss, theft or destruction satisfactory to the Trustee together with indemnity satisfactory to the Trustee while the Bonds are held in a Book-Entry System and the Trustee and the Authority at all other times, (c) all other reasonable requirements of the Authority and the Trustee are complied with, and (d) expenses in connection with such transaction are paid by the Owner. Any Bond surrendered for registration of transfer shall be cancelled. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the Authority, whether or not the Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Bonds issued under this Indenture, in any moneys or securities held by the Authority or the Trustee for the benefit of the Owners.

Section 3.07 Temporary Bonds. (a) Until the definitive Bonds are prepared, the Authority may execute, in the same manner as is provided in Section 3.03, and upon the request of the Authority, the Trustee shall authenticate and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, one or more temporary Bonds substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. the Authority at its own expense shall prepare and execute and, upon the surrender of such temporary Bonds for exchange and the cancellation of such surrendered temporary Bonds, the Trustee shall authenticate and, without charge to the Owner thereof, deliver in exchange therefor, definitive Bonds of the same aggregate principal amount and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds authenticated and issued pursuant to this Indenture.

(b) All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

Section 3.08 Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on

the date (hereinafter, the "Regular Record Date") which is the 15th day of the Month next preceding such Interest Payment Date.

Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (hereinafter, "Defaulted Interest") shall forthwith cease to be payable to the Person who was the Owner on the relevant Regular Record Date; and such Defaulted Interest shall be paid by the Authority to the Person in whose names the Bond is registered at the close of business on a date (hereinafter, the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Authority shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Authority shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Section provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Authority of such Special Record Date and, in the name and at the expense of the Authority, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Owner at its address as it appears upon the Bond Register, not less than 10 days prior to such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 3.09 Book Entry System; Appointment of Securities Depository. All Bonds shall be registered in the name of Cede & Co., as nominee for DTC, as Securities Depository, and held in the custody or for the account of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository for each maturity of Bonds, and the Beneficial Owners will not receive physical delivery of Bond certificates except as provided in this Indenture. For so long as the Securities Depository shall continue to serve as securities depository for the Bonds as provided herein, all transfers of beneficial ownership interests will be made by book-entry only, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of Bonds is to receive, hold or deliver any Bond certificate.

The Authority may, with notice to the Trustee but without the consent of any Owners, appoint a successor Securities Depository and enter into an agreement with the successor Securities Depository, to establish procedures with respect to a Book-Entry System for the Bonds not inconsistent with the provisions of this Indenture. Any successor Securities Depository shall be a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934, as amended.

The Authority and the Trustee may rely conclusively upon (i) a certificate of the Securities Depository as to the identity of the Participants in the Book-Entry System with respect

to the Bonds, and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of the Bonds beneficially owned by the Beneficial Owners.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in this Indenture of holding, delivering or transferring such Bonds shall be deemed modified to require the appropriate Person to meet the requirements of the Securities Depository as to registering or transferring the book-entry Bond to produce the same effect. Any provision hereof permitting or requiring delivery of the Bonds shall, while such Bonds are in such Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable state law.

Except as otherwise specifically provided herein with respect to the rights of Participants and Beneficial Owners, when a Book-Entry System is in effect, the Authority and the Trustee may treat the Securities Depository (or its nominee) as the sole and exclusive Owner of the Bonds registered in its name for the purposes of payment of the principal or Redemption Price of and interest on such Bonds or portion thereof to be redeemed, of giving any notice permitted or required to be given to the Owners under this Indenture and of voting, and neither the Authority nor the Trustee shall be affected by any notice to the contrary. Neither the Authority nor the Trustee will have any responsibility or obligations to the Securities Depository, any Participant, any Beneficial Owner or any other Person which is not shown on the Bond Register, with respect to (a) the accuracy of any records maintained by the Securities Depository or any Participant; (b) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal or Redemption Price of, or interest on, any Bonds; (c) the delivery of any notice by the Securities Depository or any Participant; (d) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of any of the Bonds; or (e) any other action taken by the Securities Depository or any Participant. The Trustee shall pay all principal and Redemption Price of and interest on the Bonds registered in the name of Cede only to or "upon the order of" the Securities Depository (as that term is used in the Uniform Commercial Code as adopted in the State and New York), and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the principal and Redemption Price of and interest on such Bonds to the extent of the sum or sums so paid.

The Book-Entry System may be discontinued by the Trustee and the Authority, at the direction and expense of the Authority, and the Authority and the Trustee will cause the delivery of Bond certificates to such Beneficial Owners of the Bonds and registered in the names of such Beneficial Owners as shall be specified to the Trustee by the Securities Depository in writing, under the following circumstances:

(i) The Securities Depository determines to discontinue providing its service with respect to any Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days' notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law; or

(ii) the Authority determines not to continue the Book-Entry System through a Securities Depository for the Bonds.

When the Book-Entry System is not in effect, all references herein to the Securities Depository shall be of no further force or effect.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01 Extraordinary Redemption.

(a) *Redemption Upon Early Termination.* The Bonds shall be subject to mandatory redemption prior to maturity in whole, and not in part, on the Early Redemption Date at a Redemption Price equal to the Amortized Value thereof as of the Early Redemption Date, plus unpaid accrued interest to the Early Redemption Date. The Authority shall provide the Trustee with Written Notice of the Early Termination Payment Date and immediately upon receipt of such notice, the Trustee shall establish the Early Redemption Date and shall take all action necessary to redeem the Outstanding Bonds on the Early Redemption Date with the moneys in the Termination Fund.

(b) *Redemption for Remediation.* The Bonds shall be subject to mandatory redemption prior to maturity in whole or in part, on any Interest Payment Date, at a Redemption Price equal to the Amortized Value thereof, plus unpaid accrued interest to the redemption date, if required pursuant to the Tax Agreement to maintain the Tax-Exempt Status of the Bonds. The Authority shall provide the Trustee with Written Notice of the requirement for any such redemption not more than five days after determining that such redemption will be required.

Section 4.02 Optional Redemption. The Bonds are subject to redemption at the option of the Authority in whole on any date or in part (in such amounts and by such maturities as may be specified by the Authority and by lot within a maturity) on any Interest Payment Date, at a Redemption Price equal to the greater of (a) the Amortized Value thereof, plus accrued and unpaid interest to the date of redemption; or (b) the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (described below) for such Bonds minus 0.25%, all as determined by or at the direction of the Authority and furnished to the Trustee in a Written Certificate of the Authority.

The "Applicable Tax-Exempt Municipal Bond Rate" shall be the "Comparable AAA General Obligations" yield curve rate for the stated maturity date as published by Municipal Market Data five Business Days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year shall be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com. In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield

curve rate, then the Applicable Tax-Exempt Municipal Bond Rate shall equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.theconsensus.com. In the further event Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate shall be determined by a major market maker in municipal securities, as the quotation agent, based upon the rate per annum equal to the annual yield to maturity, calculated using semi-annual compounding, of those tax-exempt general obligation bonds rated in the highest Rating Category by Moody's and S&P with a maturity date equal to the stated maturity date of such Bonds. The quotation agent's determination of the Applicable Tax-Exempt Municipal Bond Rate is final and binding in the absence of manifest error.

Section 4.03 Redemption Notice. When the Trustee receives notice from the Authority of its election or direction to redeem Bonds pursuant to Section 4.02, or when redemption of Bonds is authorized or required pursuant to Section 4.01, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds by first-class mail, postage prepaid, not less than 30 days (15 days in the case of redemption pursuant to Section 4.01) and not more than 45 days (30 days in the case of redemption pursuant to Section 4.01) prior to the redemption date to the Owner of each Bond being redeemed, at its address as it appears on the Bond Register or at such address as such Owner may have filed with the Trustee for that purpose, as of the Regular Record Date. The notice shall identify the Bonds to be redeemed and shall state (i) the redemption date, (ii) the Redemption Price or the manner in which it will be calculated, (iii) that the Bonds called for redemption must be surrendered to collect the Redemption Price, (iv) the address at which the Bonds must be surrendered, and (v) that interest on the Bonds called for redemption ceases to accrue on the redemption date. The Trustee shall not give any notice of redemption with respect to a redemption of Bonds at the option of the Authority, unless upon the giving of such notice, the Trustee holds funds sufficient to pay the Redemption Price of the Bonds to be optionally redeemed determined as of the date of giving such notice of redemption.

Section 4.04 Bonds Redeemed in Part. Upon surrender of a Bond redeemed in part, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof a new Bond or Bonds in Authorized Denominations equal in principal amount to the unredeemed portion of the Bond surrendered. Notwithstanding anything herein to the contrary, so long as the Bonds are held in the Book-Entry System the Bonds will not be delivered as set forth above; rather transfers of Beneficial Ownership of such Bonds to the Person indicated above will be effected on the registration books of the Securities Depository pursuant to its rules and procedures.

Section 4.05 Redemption at the Election or Direction of the Authority. In the case of any redemption of Bonds at the election or direction of the Authority, the Authority shall give Written Notice to the Trustee of its election or direction so to redeem, of the redemption date and of the principal amounts of the Bonds of each maturity to be redeemed (maturities and principal amounts thereof to be redeemed shall be determined by the Authority in its sole discretion). Such notice shall be given at least 40 days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as in Section 4.03, there shall be paid on or prior to the redemption date to the Trustee an amount in cash which, in addition to other moneys, if any, available therefor held by the Trustee for such

purpose, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed.

Section 4.06 Redemption Otherwise Than at the Authority's Election or Direction. Whenever by the terms of this Indenture the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the Authority, the Trustee shall (i) select the Bonds or portions of Bonds to be redeemed, (ii) give the notice of redemption and (iii) pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date in accordance with the terms of this Article IV and, to the extent applicable, Sections 5.08 and 5.11.

Section 4.07 Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate, from Bonds not previously called for redemption; *provided, however*, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination to be redeemed shall be in the principal amount of such minimum Authorized Denomination or a multiple thereof. In selecting Bonds for redemption, the Trustee shall treat each Bond of a denomination of more than the minimum Authorized Denomination as representing that number of Bonds of the minimum Authorized Denomination which is obtained by dividing by such minimum Authorized Denomination the principal amount of such Bond.

Section 4.08 Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 4.03, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bonds so surrendered, Bonds of like maturity in any of the Authorized Denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed, together with unpaid accrued interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. Upon the payment of the Redemption Price of and any unpaid accrued interest on the Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 4.09 Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, and all Bonds purchased by the Trustee pursuant to the Written

Direction of the Authority, shall thereupon be promptly cancelled (or deemed to have been cancelled). Bonds so cancelled may, to the extent permitted by law, at any time be destroyed by the Trustee, who shall execute a certificate of destruction in duplicate by the signature of one of its authorized officers describing the Bonds so destroyed, and one executed certificate shall be filed with the Authority and the other executed certificate shall be retained by the Trustee.

ARTICLE V

ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

Section 5.01 The Pledge Effected by this Indenture. (a) The Bonds shall be special obligations of the Authority payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of this Indenture solely by, the Trust Estate. The Trust Estate is hereby pledged and assigned for the payment of the principal and Redemption Price of and interest on the Bonds in accordance with their terms, subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture. The Trust Estate hereby pledged and assigned shall immediately be subject to the lien of this pledge without any further physical delivery thereof or other further act, and the lien of this pledge shall be a first lien and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

(b) The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to this Indenture, which pledge is subject to the provisions hereof permitting the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in this Indenture. Neither the faith and credit nor the taxing power of the State, the Authority, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Authority as provided in this Indenture).

(c) Nothing contained in this Indenture shall be construed to prevent the Authority from acquiring, constructing or financing through the issuance of its bonds, notes or other evidences of indebtedness any facilities or supplies of Gas other than the Gas Supply; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Trust Estate and neither the cost of such facilities or supplies of Gas nor any expenditure in connection therewith or with the financing thereof shall be payable from the Trust Estate.

Section 5.02 Establishment of Funds and Accounts. (a) The following Funds are hereby established, each to be held by the Trustee other than the Operating Fund which shall be held by the Authority:

(i) Project Fund,

(ii) Cost of Issuance Fund

(iii) Revenue Fund,

(iv) Debt Service Fund,

(v) Swap Payment Fund,

(vi) Rebate Fund,

(vii) Redemption Fund,

(viii) Termination Fund, and

(ix) Operating Fund.

(b) The Authority may, by Supplemental Indenture, establish one or more accounts or subaccounts in any Fund established hereunder.

Section 5.03 Project Fund. (a) There shall be paid into the Project Fund, from the proceeds of the Bonds, in the amount specified in Section 2.05. Amounts in the Project Fund shall be applied at the Written Request of the Authority to the payment of the Prepayment to the Seller in accordance with the Prepaid Gas Agreement.

(b) Upon Written Direction of the Authority, but not earlier than six (6) Months after the date of delivery of the Bonds, the Trustee shall transfer to the Revenue Fund any amounts remaining on deposit in the Project Fund and shall close the Project Fund.

Section 5.04 Cost of Issuance Fund.

(a) Money in the Cost of Issuance Fund shall be used to pay Costs of Issuance as provided in this Section.

(b) The Trustee shall make payments from the Cost of Issuance Fund, except payments and withdrawals pursuant to subsection (e) of this Section, in the amounts, at the times, in the manner and on the other terms and conditions set forth in this subsection. Before any such payment from the Cost of Issuance Fund shall be made, there shall be filed with the Trustee a Written Request of the Authority therefor which shall state, in respect of the payment to be made (a) the name and address of the Person to whom payment is due, (b) the amount of such payment, and (c) the particular item of the Cost of Issuance to be paid and that such payment in the stated amount is a proper charge against the Cost of Issuance Fund and that no part of such payment shall be applied to any item which has previously been paid as a Costs of Issuance of

the Bonds. The Trustee shall promptly issue its check to the Authority or to the Person identified in the requisition in the amount or amounts specified in each such requisition or, if requested pursuant to any such Written Request of the Authority, shall by wire transfer, interbank transfer or other method arrange to promptly make each payment required by such Written Request of the Authority. The Authority shall apply, or cause to be applied, all such moneys received from the Cost of Issuance Fund to the payment of the Costs of Issuance of the Bonds identified in the requisition relating to such moneys.

Each such Written Request of the Authority shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

(c) Upon the receipt by the Trustee of a certificate of Written Request of the Authority requesting the Trustee to close the Cost of Issuance Fund, and after payment from the Cost of Issuance Fund of all amounts included in Written Request of the Authority submitted by the Authority pursuant to subsection (b) of this Section, the Trustee shall transfer any moneys remaining in the Cost of Issuance Fund to the Debt Service Fund. Upon such transfer the Trustee shall close the Cost of Issuance Fund.

(d) Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Cost of Issuance Fund shall be applied to the payment of the principal of and interest on Outstanding Bonds when due.

Section 5.05 Revenues and Revenue Fund. All Revenues shall be deposited promptly by the Trustee upon receipt thereof into the Revenue Fund. If any payment is not made into the Revenue Fund when due, immediate notice shall be given to the Authority by the Trustee.

Section 5.06 Payments into Certain Funds. (a) In each Month during which there is a deposit of Revenues into the Revenue Fund (but in no case later than the respective dates set forth below), the Trustee shall transfer to the following Funds, in the following order of priority (except as provided in (ii) below, with the full amounts to be transferred to any Fund in a Month to be transferred to such Fund before any transfer is made to a Fund with a lower priority), the amounts set forth below (such transfer to be made in such a manner so as to assure good funds in such Funds on the respective dates set forth below):

(i) To the Debt Service Fund: not later than the 25th of such Month, or if such day is not a Business Day, the next succeeding Business Day, the Scheduled Debt Service Deposit for such Month, as set forth in Schedule I hereto; provided that if any moneys from the initial draw on the Customer Insurance Policy have been deposited in the Revenue Fund in such month, the Trustee shall transfer to the Debt Service Fund the Scheduled Debt Service Deposit for such month and the next succeeding month;

(ii) If the Authority has issued obligations to refund Bonds that are payable from the revenues on a parity with the Bonds, to the debt service fund or funds for such refunding obligations the amounts required to be deposited in such funds pursuant to the proceedings and documents pursuant to which such refunding obligations were issued; provided, that if there are insufficient moneys in the Revenue Fund to make

the full transfers required by this clause (ii) and clause (i) above, such transfers shall be made *pro rata* based on the respective amounts due;

(iii) To the Swap Payment Fund: not later than the 25th of such Month, or if such day is not a Business Day, the next succeeding Business Day, the amount, if any, required so that the balance credited to the Swap Payment Fund shall equal the amount necessary for the payment of the Commodity Swap Payment, if any, coming due in such Month as set forth in a Written Direction to the Trustee;

(iv) To the Rebate Fund: not later than the last day of such Month, the amount, if any, required so that the balance credited to the Rebate Fund shall equal the amount required to be on deposit in the Rebate Fund pursuant to the Tax Agreement as set forth in a Written Direction to the Trustee;

(v) To the Redemption Fund: not later than the 25th of such Month, or if such day is not a Business Day on the next succeeding Business Day, the amount specified in a Written Direction of the Authority for the redemption of Bonds at the option of the Authority pursuant to Section 4.02;

(vi) To the Operating Fund: not later than the last day of such Month, the remaining balance in the Revenue Fund after making the foregoing credits required by this paragraph (a).

(b) So long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including all principal and interest thereon), no credits shall be required to be made to the Debt Service Fund.

(c) In the event there are insufficient funds in the Revenue Fund to fund the Debt Service Fund in accordance with Section 5.06(a)(i) in any month, and such failure is due to the Municipality's failure to pay Contract Price payments under the Supply Agreement, the Trustee shall provide notice of such failure to the Customer Insurance Provider in accordance with the Customer Insurance Policy. If sufficient funds are not available by 11:00 am on the Business Day that is two Business Days after the 25th of such month, or if such day is not a Business Day on the next succeeding Business Day, the Trustee shall make a claim under the Customer Insurance Policy for the full amount of the defaulted Contract Price payments.

(d) In the event there are insufficient funds in the Revenue Fund to fund the Debt Service Fund in accordance with Section 5.06(a)(i) in any month because the Authority has failed to receive a regularly scheduled swap payment under the Commodity Swap due to the occurrence of (i) a termination event under the Commodity Swap where the Swap Counterparty is the affected party or (ii) an Authority default under the Commodity Swap, and such failure occurs on or after the applicable termination event or event of default but prior to the date on which the Commodity Swap is either terminated in accordance with its terms or, if the Commodity Swap is assigned in accordance with its terms, the date on which regularly scheduled swap payments by the successor counterparty commence, the Trustee shall provide notice to the Funding Provider of a Covered Swap Deficiency and draw the full amount of such deficiency as a Mandatory Swap Advance under the Funding Agreement.

(e) In the event there are insufficient funds in the Revenue Fund to fund the Debt Service Fund in accordance with Section 5.06(a)(i) in any month, and such failure is not due to the circumstances described in Section 5.06(c) or Section 5.06(d), the Trustee shall provide notice to the Funding Provider of a Covered General Deficiency.

(f) Notwithstanding the redemption of Bonds pursuant to Section 4.01(b) and Section 4.02, the Scheduled Debt Service Deposits shall not be adjusted except pursuant to a Written Direction of the Authority delivered to the Trustee together with the consent of each Qualified Provider whose consent is required by a Forward Purchase Agreement then in effect.

Section 5.07 Debt Service Fund. (a) The amounts credited to the Debt Service Fund pursuant to Section 5.06(a)(ii) shall be applied on each Bond Payment Date to the payment of Debt Service payable on such Bond Payment Date.

(b) The Trustee shall pay out of the Debt Service Fund the accrued interest on Bonds to be redeemed from moneys in the Redemption Fund and the accrued interest included in the purchase price of Bonds purchased for retirement.

(c) The amount, if any, deposited in the Debt Service Fund from the proceeds of the Bonds shall be set aside and applied to the payment of interest on the Bonds.

(d) In the event of the defeasance of any Bonds in accordance with Section 12.01(c), the Trustee shall, upon receipt of Written Directions of the Authority, withdraw from the Debt Service Fund all, or any portion of, the amounts accumulated therein with respect to Debt Service on the Bonds being defeased and deposit such amounts with the Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being defeased; *provided that* such withdrawal shall not be made unless immediately thereafter Bonds being defeased shall be deemed to have been paid pursuant to Section 12.01(c) and *provided, further*, that, at the time of such withdrawal, there shall exist no deficiency in any Fund held hereunder.

(e) Any amount remaining in the Debt Service Fund after each date for payment of maturing principal of Bonds, other than Bond proceeds to be retained therein for purposes of making future payments, shall be transferred to the Operating Fund.

Section 5.08 Swap Payment Fund.

(a) Amounts credited to the Swap Payment Fund shall be applied from time to time by the Trustee to the payment of the Commodity Swap Payments.

(b) Amounts credited to the Swap Payment Fund which the Authority at any time determines to be in excess of the requirements of such Fund shall be applied to make up any deficiencies in the Debt Service Fund. Any balance of such excess not required to be so applied shall be transferred to the Revenue Fund for application in accordance with Section 5.06(a).

Section 5.09 Rebate Fund.

(a) The Trustee shall apply amounts in the Rebate Fund to the payment when due of the Rebate Requirements as provide in this Section.

(b) Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Authority as necessary in order for the Authority and the Municipality to comply with the terms and requirements of the Tax Agreement. Subject to the transfer provisions provided in paragraph (c) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America, and none of the Authority, the Municipality, the Trustee or the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by Section 22.19 of the Supply Agreement and by the Tax Agreement. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Authority, including supplying all necessary information requested by the Authority and the Municipality in the manner set forth in the Tax Agreement, and shall not be required to take any actions thereunder in the absence of written directions from the Authority.

(c) Upon receipt of the Written Directions of the Authority, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Authority so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Written Directions of the Authority. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement and payment of all other amounts due and owing pursuant to this Indenture shall be withdrawn and remitted to the Authority upon the Written Request of the Authority.

(d) Notwithstanding any provision of this Indenture, including in particular Article IX hereof, the obligation of the Authority to pay the Rebate Requirement to the United States of America and to comply with all other requirements of this Section, Section 22.19 of the Supply Agreement and the Tax Agreement shall survive the defeasance or payment in full of the Bonds and the discharge of this Indenture.

Section 5.10 Redemption Fund.

(a) In addition to the deposits required by Section 5.06(a), the Trustee shall deposit all amounts which are not Revenues received from the Authority for deposit into the Redemption Fund, including amounts deposited to redeem Bonds pursuant to Section 4.01(b) and transfers from the Operating Fund. Mandatory amounts on deposit in the Redemption Fund shall be applied by the Trustee to the redemption of Outstanding Bonds pursuant to Section 4.01(b) and/or Section 4.02 as directed in a Written Direction of the Authority.

(b) Any amounts remaining on deposit in the Redemption Fund following the redemption of all those Bonds to be redeemed pursuant to a Written Direction of the Authority shall, upon Written Direction of the Authority to the Trustee, be transferred to the Operating Fund.

Section 5.11 Termination Fund.

(a) In the event an Early Termination Date is established for the Prepaid Gas Agreement, the Authority shall direct the Gas Supplier to pay the Termination Amount directly to the Trustee for the account of the Authority. The Trustee shall deposit the Termination Amount into the Termination Fund. On the 25th day of the month in which the Bonds are to be redeemed pursuant to Section 4.01(a), after making any payments to be made from the Debt Service Fund and/or the Swap Payment Fund on such date, the Trustee shall transfer all moneys in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund to the Termination Fund. The amounts deposited into the Termination Fund shall be applied by the Trustee: first to the mandatory redemption of Outstanding Bonds pursuant to Section 4.01(a); and then to any amounts due to the Qualified Provider under the Forward Purchase Agreement maintained pursuant to Section 7.13 as a result of the termination of such Forward Purchase Agreement due to the early termination of the Prepaid Gas Agreement.

(b) To the extent that the balance in the Termination Fund is not sufficient to pay: (i) the Redemption Price plus accrued interest on the Bonds to be redeemed on the Early Redemption Date; and (ii) any amount due to the Qualified Provider under the Forward Purchase Agreement as a result of the termination of the Forward Purchase Agreement maintained pursuant to Section 7.13 due to the early termination of the Prepaid Gas Agreement, and such deficiency is caused by a Covered Termination Deficiency, the Trustee shall provide notice to the Funding Provider of such Covered Termination Deficiency and draw the full amount of such deficiency as a Mandatory Termination Advance under the Funding Agreement. The full amount of the Mandatory Termination Advance shall be deposited in the Termination Fund.

(c) Any amounts remaining on deposit in the Termination Fund following the redemption and payment of all Outstanding Bonds, and the payment of any amount due to the Qualified Provider under the Forward Purchase Agreement maintained pursuant to Section 7.13 as a result of the termination of the Forward Purchase Agreement due to the early termination of the Prepaid Gas Agreement shall, upon Written Direction of the Authority to the Trustee, be transferred to the Operating Fund.

Section 5.12 Operating Fund. The Authority shall apply amounts credited to the Operating Fund to any one or more of the following (as determined by the Authority and without any order of priority):

(i) payment of administrative or other expenses of the Authority;

(ii) rebates to the Municipality;

(iii) the purchase or redemption of Bonds and expenses in connection therewith; and

(iv) any other lawful purpose of the Authority.

Section 5.13 Purchases of Bonds. Any purchase of Bonds (or portions thereof) by or at the direction of the Authority pursuant to this Indenture may be made with or without tenders of Bonds and at either public or private sale, in such manner as the Authority may determine.

ARTICLE VI

DEPOSITORIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

Section 6.01 Depositories. (a) All moneys held by the Trustee and the Authority under the provisions of this Indenture shall constitute trust funds and the Trustee and the Authority may deposit such moneys with one or more Depositories in trust for said parties. All moneys deposited under the provisions of this Indenture with the Trustee, the Authority or any Depository shall be held in trust and applied only in accordance with the provisions of this Indenture.

(b) Each Depository shall be a bank or trust company organized under the laws of any state of the United States or a national banking association having capital stock, surplus and undivided earnings of $500,000,000 or more, and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of this Indenture.

Section 6.02 Deposits. (a) All Revenues and moneys held by any Depository under this Indenture may be placed on demand or time deposit, if and as directed by the Authority, provided that such deposits shall permit the moneys so held to be available for use at the time when needed. Any such deposit may be made in the commercial banking department of the Trustee or that of any of the Trustee's affiliates which may honor checks and drafts on such deposit with the same force and effect as if it were not the Trustee. All moneys held by the Trustee, as such, may be deposited by in its banking department on demand or, if and to the extent directed by the Authority and acceptable to the Trustee, on time deposit, provided that such moneys on deposit be available for use at the time when needed. The Trustee shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

(b) All moneys held under this Indenture by the Trustee, the Authority or any Depository shall be held in such manner as may then be required by applicable Federal or State laws and regulations and applicable state laws and regulations of the state in which such Depository is located, regarding security for, or granting a preference in the case of, the deposit of public or trust funds or, in the absence of such laws and regulations, shall be either (i) continuously or fully insured by the Federal Deposit Insurance Corporation, or (ii) continuously and fully secured, to the extent not insured by the Federal Deposit Insurance Corporation, by lodging with the Trustee or the Authority, as custodian, as collateral security, Qualified Investments having a market value (exclusive of accrued interest) not less than the amount of such moneys (or portion thereof not insured by the Federal Deposit Insurance Corporation); *provided, however*, that, to the extent permitted by law, it shall not be necessary for the Trustee to give security under this subsection (b) for the deposit of any moneys with them held in trust and set aside by them for the payment of the principal or Redemption Price of or interest on any Bonds, or for the Trustee, the Authority or any Depository to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

(c) All moneys deposited with the Trustee and each Depository shall be credited to the particular Fund or Account to which such moneys belong and, except as provided with respect to the investment of moneys in Qualified Investments in Section 6.03, the moneys credited to each particular Fund or Account shall be kept separate and apart from, and not commingled with, any moneys credited to any other Fund or Account or any other moneys deposited with the Trustee, the Authority and each Depository.

Section 6.03 Investment of Certain Funds. Moneys held in any Fund established hereunder (other than the Rebate Fund) shall be invested and reinvested to the fullest extent practicable in Qualified Investments which mature or are payable not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund. Moneys held in the Rebate Fund shall be invested in Government Obligations as provided in the Tax Agreement. The Trustee shall make all such investments of moneys held by it in accordance with written instructions received from an Authorized Officer. In making any investment in any Qualified Investments with moneys in any Fund established held by the Trustee, the Authority may instruct the Trustee to combine such moneys with moneys in any other Fund held by the Trustee, but solely for purposes of making such investment in such Qualified Investments. In the absence of such written instructions, the Trustee shall invest in securities described in clause (i) of the definition of Qualified Investments. For investment purposes, the Trustee may commingle the moneys in the Funds and accounts established hereunder (other than the Rebate Fund and the Debt Service Fund) but shall account for each separately.

The Trustee is authorized to enter into Forward Purchase Agreements with a Qualified Provider at the Written Direction of the Authority for the investment of amounts in any Fund in Qualified Investments for such Fund. The Trustee shall apply any upfront payment made by a Qualified Provider in connection with entering into a Forward Purchase Agreement as set forth in a Written Direction of the Authority; provided that the Trustee shall apply any upfront payment made by a Qualified Provider in connection with entering into a Forward Purchase Agreement which replaces a Forward Purchase Agreement as provided in the replaced Forward Purchase Agreement without further direction from the Authority..

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment and, at the discretion of the Authority, net of any amount thereof required to be rebated to the United States of America which, at the written direction of the Authority shall be transferred to the Rebate Fund to pay Rebate Payments) earned on any moneys or investments in any Fund established hereunder shall be held in such Fund for the purposes thereof.

Nothing in this Indenture shall prevent any Qualified Investments acquired as investments of or security for Funds held under this Indenture from being issued or held in book-entry form on the books of the Department of the Treasury of the United States.

Nothing in this Indenture shall preclude the Trustee from investing or reinvesting moneys that it holds in the Funds established pursuant to this Indenture through its bond department; *provided, however*, that the Authority may, in its discretion, direct that such moneys be invested or reinvested in a manner other than through such bond department. The Trustee may act as principal or agent in the acquisition or disposition of any Qualified Investment.

To the extent any Qualified Investment is insured, guaranteed or otherwise supported by any secondary facility, the Trustee shall make a claim under such facility at such time as shall be required to receive payment thereunder not later than the date required to make any necessary deposit pursuant to Section 5.06 or otherwise under Article V.

Section 6.04 Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund created under the provisions of this Indenture shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund, and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

In computing the amount in any Fund created under the provisions of this Indenture for any purpose provided in this Indenture, obligations purchased as an investment of moneys therein shall be valued at the lower of market value or the amortized cost thereof. The accrued interest paid in connection with the purchase of any obligation shall be included in the value thereof until interest on such obligation is paid. Such computation shall be determined as of the last day of the Authority's Fiscal Year and at such other times as the Authority shall determine. Guaranteed investment contracts or similar agreements shall be valued at their face value to the extent that they provide for withdrawals without market adjustment or penalty when they are required to provide payment pursuant to this Indenture.

Except as otherwise provided in this Indenture, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested so to do by a Written Request of the Authority. Whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by the Trustee or the Authority, the Trustee or the Authority shall sell at the best price obtainable or present for redemption such obligation or obligations designated by an Authorized Officer necessary to provide sufficient moneys for such payment or transfer; *provided, however*, that if the Authority fails to provide such designation promptly after request thereof by the Trustee, the Trustee may in its discretion select the obligation or obligations to be sold or presented for redemption.

The Trustee shall not be liable or responsible for any loss resulting from any such investment, sale or presentation for redemption made in the manner provided above.

ARTICLE VII

PARTICULAR COVENANTS OF THE AUTHORITY

The Authority covenants and agrees with the Trustee and the Owners as follows:

Section 7.01 Payment of Bonds. The Authority shall duly and punctually pay or cause to be paid, but solely from the Trust Estate, the principal or Redemption Price, if applicable, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds, according to the true intent and meaning thereof.

Section 7.02 Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for

interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under this Indenture, to the benefit of this Indenture or to any payment out of Revenues or Funds established by this Indenture, including the investment income, if any, thereof, pledged under this Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to this Indenture) held by the Trustee, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

Section 7.03 Offices for Servicing Bonds. The Authority shall at all times maintain one or more agencies where Bonds may be presented for payment. The Authority hereby appoints the Trustee as the paying agent for the Bonds and the Trustee hereby accepts such appointments. The Trustee shall at all times maintain one or more agencies where Bonds may be presented for registration or transfer and where notices, demands and other documents may be served upon the Authority in respect of the Bonds or of this Indenture, and the Trustee shall continuously maintain or make arrangements to provide such services.

Section 7.04 Further Assurance. At any and all times the Authority shall, as far as it may be authorized by law, comply with any reasonable request of the Trustee to pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and other moneys, securities and funds hereby pledged, or intended so to be, or which the Authority may become bound to pledge.

Section 7.05 Power to Issue Bonds and Pledge the Trust Estate. The Authority is duly authorized under all applicable laws to create and issue the Bonds and to execute and deliver this Indenture and to pledge the Trust Estate, in the manner and to the extent provided in this Indenture. Except to the extent otherwise provided in this Indenture, the Trust Estate will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with or, except as provided in the Commodity Swap, subordinate to, the security interest, the pledge and assignment created by this Indenture, and all action on the part of the Authority to that end has been and will be duly and validly taken. The Bonds and the provisions of this Indenture are and will be the valid and legally enforceable special obligations of the Authority in accordance with their terms and the terms of this Indenture. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under this Indenture and all the rights of the Owners under this Indenture against all claims and demands of all Persons whomsoever.

Section 7.06 Power to Fix and Collect Fees and Charges for the Sale of Gas. The Authority has, and, to the extent permitted by law, will have as long as any Bonds are Outstanding, good right and lawful power to fix, establish, maintain and collect fees and charges for the sale and transportation of Gas or otherwise with respect to the Gas Supply, subject to the terms of the Supply Agreement.

Section 7.07 Creation of Liens. The Authority shall not issue any bonds, notes, debentures or other evidences of indebtedness of similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate and shall not create or cause to be created any lien or charge on the Trust Estate other than the lien and charge created by this Indenture, the lien and charge to secure such refunding obligations, and the Commodity Swap. The Authority shall obtain a Rating Confirmation for the Bonds in connection with the issuance of any refunding obligations pursuant to this Section 7.07 if such refunding obligations are to be payable from, or secured by a pledge of, the Revenues on a parity with the Bonds.

Section 7.08 Enforcement and Amendment of Documents. (a) The Authority shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all amounts payable to it pursuant to the Supply Agreement and all other Revenues. The Authority shall enforce the provisions of the Supply Agreement, as well as any other contract or contracts entered into relating to the Gas Supply, and duly perform its covenants and agreements thereunder. The Authority will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with the Supply Agreement which will impair the ability of the Authority to comply during the current or any future year with the provisions of this Indenture; provided that this provision shall not prevent the Authority from otherwise taking any action under or in connection with the Supply Agreement which is expressly permitted pursuant to the provisions thereof. A copy of the Supply Agreement certified by an Authorized Officer shall be filed with the Trustee, and a copy of any such amendment certified by an Authorized Officer shall be filed with the Trustee.

(b) The Authority shall enforce the provisions of the Prepaid Gas Agreement and the Funding Agreement and duly perform its covenants and agreements thereunder and shall enforce the provisions of the Customer Insurance Policy, the Guarantee and the Funding Guarantee. The Trustee shall promptly notify the Authority of any payment default that has occurred and is continuing on the part of the Gas Supplier under the Prepaid Gas Agreement, the Funding Provider under the Funding Agreement, the Customer Insurance Provider under the Customer Insurance Policy or the guarantor under the Guarantee. The Authority will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee or the Guarantee which will in any manner materially impair or materially adversely affect the rights of the Authority thereunder or the rights or security of the Trustee or the Owners. A copy of the Prepaid Gas Agreement certified by an Authorized Officer shall be filed with the Trustee, and a copy of any such amendment certified by an Authorized Officer shall be filed with the Trustee.

(c) The Authority hereby irrevocably appoints and directs the Trustee as its agent to issue notices and to take any other actions that the Authority is required or permitted to take under (i) the Supply Agreement (including the termination thereof upon the default of the Municipality thereunder), (ii) the Prepaid Gas Agreement (including notices to direct the remarketing of Gas and notice designating an "Early Termination Date" thereunder); (iii) the Funding Agreement (including requesting funds thereunder); (iv) the Customer Insurance Policy (including requesting funds thereunder upon an uncured failure by the Municipality to pay); (v)

the Funding Guarantee (including requesting funds thereunder) and (vi) the Guarantee (including requesting funds under such Guarantee immediately upon an uncured failure by the Gas Supplier to pay a Gas Payment). In exercising this agency power, the Trustee shall have the same power as the Authority to take any such actions as it deems necessary under the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee and the Guarantee. Notwithstanding this grant of agency power, the Authority shall retain, in the absence of any conflicting action by the Trustee, the right to exercise any rights for which it has appointed the Trustee as its agent in accordance with the foregoing; provided however, if an Event of Default has occurred, the Trustee shall have the right to notify the Authority to cease exercising such rights and, upon receipt of such notice with a copy provided to the Municipality under the Supply Agreement, the Gas Supplier under the Prepaid Gas Agreement, the Funding Provider under the Funding Agreement and the guarantor under the Guarantee, the Trustee shall have exclusive authority to exercise such rights, and to collect and apply all amounts payable thereunder, until such time as the Trustee issues a subsequent notice otherwise.

(d) The Authority shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all Commodity Swap Receipts or other amounts payable to it pursuant to the Commodity Swap. The Authority shall enforce the provisions of the Commodity Swap and duly perform its covenants and agreements thereunder. The Authority will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with any Commodity Swap which will impair the ability of the Authority to comply during the current or any future year with the provisions hereof. A copy of each Commodity Swap certified by an Authorized Officer shall be filed with the Trustee, and a copy of any amendment to a Commodity Swap certified by an Authorized Officer shall be filed with the Trustee.

(e) Upon the failure of the Gas Supplier to pay any amount due under the Prepaid Gas Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Guarantee. Upon the failure of the Funding Provider to pay any amount due under the Funding Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Funding Guarantee.

Section 7.09 Accounts and Reports. (a) The Authority shall keep or cause to be kept with respect to the Gas Supply proper books of record and account (separate from all other records and accounts) in accordance with generally accepted accounting principles, as such may be modified by the provisions of this Indenture, in which complete and correct entries shall be made of its transactions relating to the Gas Supply, the amount of Revenues and the application thereof and each Fund established under this Indenture and relating to its costs and charges under the Supply Agreement and any other contracts for the sale or purchase of Gas, and which, together with the Prepaid Gas Agreement and all contracts and all other books and papers of the Authority relating to the Gas Supply, shall, subject to the terms thereof, at all times during regular business hours be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

(b) The Trustee shall advise the Authority promptly after the end of each Month of the respective transactions during such Month relating to each Fund and Account held by it under this Indenture. The Trustee shall provide an annual summary of all such monthly reports (the "Annual Transaction Report") no later than sixty (60) days after the end of each of the Authority's Fiscal Years.

(c) The Authority shall file with the Trustee (i) forthwith upon becoming aware of any Event of Default or default in the performance by the Authority of any covenant, agreement or condition contained in this Indenture, a Written Certificate of the Authority and specifying such Event of Default or default and (ii) within 180 days after the end of each Fiscal Year, commencing with the first Fiscal Year ending following the issuance of the Bonds, a Written Certificate of the Authority signed by an appropriate Authorized Officer stating whether, to the best of such Officer's knowledge and belief, the Authority has kept, observed, performed and fulfilled its covenants and obligations contained in this Indenture and that there does not exist at the date of such certificate any default by the Authority under this Indenture or any Event of Default or other event which, with the giving of notice or the lapse of time specified in Section 8.01, or both, would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specifying the same and the nature and status thereof.

(d) The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of this Indenture shall be available for the inspection of Owners at the office of the Trustee and shall be mailed to each Owner who shall file a written request therefor with the Authority. The Authority may charge each Owner requesting such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

Section 7.10 Payment of Taxes and Charges. The Authority will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the Authority or upon the rights, revenues, income, receipts, and other moneys, securities and funds of the Authority when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under this Indenture), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the Authority shall in good faith contest by proper legal proceedings if the Authority shall in all such cases have set aside on its books reserves deemed adequate by the Authority with respect thereto.

Section 7.11 Tax Covenants. (a) The Authority covenants that it shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the Tax-Exempt Status of the Bonds under Section 103 of the Internal Revenue Code and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the Authority covenants that it will comply with the instructions and requirements of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the Authority is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under this Indenture, the Authority shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such action as specified in such instructions.

(c) Notwithstanding any other provisions of this Section, if the Authority shall provide to the Trustee an Opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required to maintain the Tax-Exempt Status of the Bonds, the Authority and the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Agreement, and the covenants hereunder shall be deemed to be modified to that extent.

(d) Notwithstanding any other provision of this Indenture to the contrary, upon the Authority's failure to observe or refusal to comply with the above covenants, the Owners, or the Trustee acting on their behalf pursuant to their written request and direction, shall be entitled to the rights and remedies provided to the Owners under this Indenture, other than the right (which is hereby abrogated solely in regard to the Authority's failure to observe or refusal to comply with the covenants of this Section) to declare the principal of any Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately. In connection with any action taken by it under this Section, the Trustee shall have the benefit of all of the protective provisions set forth in Article IX hereof.

Section 7.12 General. (a) The Authority shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Authority under the provisions of the Act and this Indenture.

(b) The Authority shall not consolidate or amalgamate with, or merge with or into, or transfer all or substantially all its assets to, or reorganize, reincorporate or reconstitute into or as, another entity unless, (i) prior to such event, the Authority receives confirmation from the Swap Counterparty that such event does not trigger a termination event under Section 5(b)(iv) of the Commodity Swap then in effect; and (ii) at the time of such consolidation, amalgamation, merger, transfer, reorganization, reincorporation or reconstitution, the resulting, surviving or transferee entity assumes all the obligations of the Authority under the Commodity Swap.

(c) The Authority shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the ratings on the Bonds.

(d) Upon the date of authentication and delivery of any of the Bonds, the Authority has determined that all conditions, acts and things required by law and this Indenture to exist, to have happened and to have been performed precedent to and in connection with the issuance of such Bonds shall exist, have happened and have been performed in due time, form and manner, and the issuance of such Bonds, together with all other obligations of the Authority, shall comply in all respects with the applicable laws of the State.

(e) The Authority shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Authority under the provisions of the Act and this Indenture.

(f) To the extent permitted by law, until the passage of one year and one day after the first date when no Bonds remain Outstanding under the Indenture, the Authority agrees not to file a petition for relief under Title 11 of the United States Code, as amended, and any successor statute or statutes having substantially the same function or any other insolvency law or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency, or reorganization or relief of debtors.

Section 7.13 Maintenance of Investment Revenues. At any and all times that any Forward Purchase Agreement is no longer provided by a Qualified Provider, the Authority shall use its best efforts to replace such Forward Purchase Agreement with a replacement Forward Purchase Agreement with a Qualified Provider containing substantially the same terms as the replaced Forward Purchase Agreement. In the event that there is no such replacement or such replacement generates lower investment income, the Authority shall increase the Contract Price by an amount that is sufficient to cover such loss of investment income.

Section 7.14 Notices to Rating Agencies. The Authority shall provide notice to each Rating Agency then rating the Bonds of the termination of any Commodity Swap, the entry into a Commodity Swap after the date of issuance of the Bonds, the occurrence of an Early Termination Date, any mandatory redemption of Bonds, the Trustee and the Authority requiring a Qualified Provider to post such collateral or make such other security arrangements as the Authority shall determine are appropriate for its interests, and the appointment of a successor Trustee under this Indenture. The Authority shall provide each Rating Agency then rating the Bonds a copy of the Annual Transaction Report within thirty (30) days of the receipt thereof from the Trustee and shall provide each Rating Agency with notice of any change in the Qualified Provider and any termination and/or replacement of a Forward Purchase Agreement.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.01 Events of Default. Any one or more of the following shall constitute an Event of Default hereunder:

(a) default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;

(b) default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) a determination by the Trustee on the third day after the 25th day of any Month, or if such day is not a Business Day on the next succeeding Business Day, after the transfer of amounts pursuant to Section 5.06(a)(i), that the amount on deposit in the Debt Service Fund (including for purposes of this computation, interest accrued on such deposits and investment income that remains on deposit in such Fund) is not at least equal to the cumulative Scheduled Debt Service Deposit for such Month as specified on Schedule I hereto;

(d) default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, and such default shall continue for a period of 60 days or, if such default cannot reasonably be remedied within such 60 day period, such longer period so long as diligent efforts are being made to remedy such default, after written notice thereof specifying such default and requiring that it shall have been remedied and stating that such notice is a "Notice of Default" hereunder is given to the Authority by the Trustee or to the Authority and to the Trustee by the Owners of not less than 10% in principal amount of the Bonds Outstanding;

(e) the Authority shall commence a voluntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Authority is unable to meet its debts with respect to the Gas Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or shall authorize, apply for or consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefrom, or shall make any general assignment for the benefit of creditors, or shall make a written declaration or admission to the effect that it is unable to meet its debts with respect to the Gas Supply as such debts mature, or shall authorize or take any action in furtherance of any of the foregoing;

(f) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Authority in an involuntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Authority is unable to meet its debts with respect to the Gas Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or a decree or order appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefor, or a decree or order for the dissolution, liquidation or winding up of the Authority and its affairs or a decree or order finding or determining that the Authority is unable to meet its debts with respect to the Gas Supply as such debts mature, and any such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; and

(g) there shall occur any other Event of Default specified in a Supplemental Indenture.

In each and every such case, other than an Event of Default described in clause (d), (e), or (g) above, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, the Trustee (by notice in writing to the Authority), or the Owners of not less than a majority in principal amount of the Bonds Outstanding (by notice in writing to the Authority and to the Trustee) may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in this Indenture or in any of the Bonds contained to the contrary notwithstanding. In the case of an Event of Default described in clause (e) or (f) above, the Trustee shall, without further action, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, anything in this Indenture or in the Bonds to the contrary notwithstanding. In the case of an Event of Default described in clause (d) or (g) above, unless the principal amount of all the Bonds shall have already become due and payable, the Trustee or the Owners of not less than a majority in principal amount of the Bonds Outstanding (after notice to the Trustee) may bring a suit in any court of competent jurisdiction to compel specific performance. The right of the Trustee or of the Owners of not less than a majority in principal amount of the Bonds Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with the reasonable fees, charges, expenses and liabilities of the Trustee, and all other sums then payable by the Authority under this Indenture (except the principal of, and interest accrued since the next preceding Interest Payment Date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Authority or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under this Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Owners of a majority in principal amount of the Bonds Outstanding, by written notice to the Authority and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written directions to the contrary by the Owners of a majority in principal amount of the Bonds Outstanding, then any such declaration shall *ipso facto* be deemed to be rescinded and any such default shall *ipso facto* be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Section 8.02 Accounting and Examination of Records After Default. The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of the Authority and all other records relating to the Gas Supply shall at all times during regular business hours be subject to the inspection and use of the Trustee and of its agents and attorneys.

Section 8.03 Application of Moneys After Default; Enforcement of Agreements. (a) The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon the demand of the Trustee, shall (i) to the extent not previously so granted, grant to the Trustee the rights and remedies afforded the Authority in the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Guarantee and the Funding Guarantee and

(ii) pay over or cause to be paid over to the Trustee all Revenues which are not paid directly to the Trustee as promptly as practicable after receipt thereof. During the continuance of an Event of Default, the Trustee shall continue to apply all Revenues received by the Trustee pursuant to any right given or action taken under the provisions of this Article and any moneys in the Funds held by the Trustee hereunder as provided in Article V.

(b) If and whenever all overdue installments of interest on all Bonds, together with the reasonable charges, expenses and liabilities of the Trustee, and all other sums payable by the Authority under this Indenture, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Authority, or provisions satisfactory to the Trustee shall be made for such payment, and all defaults under this Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, thereupon the Authority, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under this Indenture. No such restoration of the Authority, the Trustee and the Owners to their former positions and rights shall extend to or affect any subsequent default under this Indenture or impair any right consequent thereon.

Section 8.04 Appointment of Receiver. The Trustee shall have the right, upon the happening of an Event of Default, to apply in an appropriate proceeding for the appointment of a receiver of the Gas Supply.

Section 8.05 Proceedings Brought by Trustee. (a) If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Owners under this Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under this Indenture.

(b) All rights of action under this Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof at the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

(c) The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

(d) Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under this Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in this Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

(e) Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under this Indenture by any acts which may be unlawful or in violation of this Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners.

Section 8.06 Restriction on Owner's Action. (a) No Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of this Indenture or the execution of any trust under this Indenture or for any remedy under this Indenture, unless such Owner (i) shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee to take such action, (ii) shall have offered it reasonable opportunity, either to exercise the powers granted in this Indenture or by the laws of the State or to institute such action, suit or proceeding in its own name, and (iii) shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by this Indenture, or to enforce any right under this Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner provided in this Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject only to the provisions of Section 7.02.

(b) Nothing in this Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay, but only from the Trust Estate, in accordance with the terms of this Indenture, at the respective dates of maturity and places therein expressed the principal or Redemption Price of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond.

Section 8.07 Remedies Not Exclusive. No remedy by the terms of this Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Indenture or existing at law or in equity or by statute on or after the date of execution and delivery of this Indenture.

Section 8.08 Effect of Waiver and Other Circumstances. (a) No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by this Article VIII to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Owners.

(b) Prior to the declaration of maturity of the Bonds as provided in Section 8.01, the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under this Indenture and its consequences, except a default in the payment of interest on or principal or Redemption Price of any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 8.09 Notice of Default. The Trustee shall promptly mail written notice of the occurrence of any Event of Default to each registered Owner of Bonds then Outstanding at its address, if any, appearing upon the Bond Register.

ARTICLE IX

CONCERNING THE TRUSTEE

Section 9.01 Acceptance by Trustee of Duties. The Trustee accepts the duties and obligations imposed upon it by this Indenture and the trusts hereby created, but only, however, upon the terms and conditions set forth in this Indenture.

Section 9.02 Responsibilities of Trustee. (a) The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Authority and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of any Bonds issued thereunder or as to the security afforded by this Indenture, and the Trustee shall incur no liability in respect thereof; provided, however, the Trustee shall be responsible for its representation contained in its certificate of authentication on the Bonds. The Trustee shall be under no responsibility or duty with respect to the application of any moneys paid by the Trustee in accordance with the provisions of this Indenture to the Authority or to any other Person. The Trustee shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of subsection (b) of this Section, the Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct.

(b) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Any provision of this Indenture relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section 9.02 and Section 9.03.

(c) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

Section 9.03 Evidence on Which Trustee May Act. (a) The Trustee, upon receipt of any notice, direction, resolution, request, consent, order, certificate, report, opinion, bond, statement, facsimile transmission, electronic mail or other paper or document furnished to it pursuant to any provision of this Indenture, shall examine such instrument to determine whether it conforms to the requirements of this Indenture and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may or may not be counsel to the Authority, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under this Indenture in good faith and in accordance therewith.

(b) Whenever the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Indenture, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the Authority, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Indenture in reliance thereon; but in its discretion the Trustee may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable. The Trustee shall not be bound to recognize any Person as an Owner or to take any action at its request unless its Bond shall be deposited with such entity or satisfactory evidence of the ownership of such Bond shall be furnished to such entity.

(c) The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

Section 9.04 Compensation. The Authority shall pay or cause to be paid to the Trustee from time to time reasonable compensation for all services rendered under this Indenture, and also all reasonable expenses, charges, legal fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Indenture, in accordance with the agreements made from time to time between the Authority and the Trustee. Subject to the provisions of Section 9.02, the Authority further agrees, to the extent permitted by applicable law, to indemnify and save the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder and which are not due to the Trustee's negligence or willful misconduct.

Section 9.05 Certain Permitted Acts. The Trustee, individually or otherwise, may become the Owner of any Bonds, with the same rights it would have if it were not the Trustee. To the extent permitted by law, the Trustee may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Indenture, whether or not any such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

Section 9.06 Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties created by this Indenture by giving not less than 120 days' written notice to the Authority and mailing notice thereof to the Owners of Bonds then Outstanding, specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless (a) previously a successor shall have been appointed by the Authority or the Owners as provided in Section 9.08, in which event such resignation shall take effect immediately on the appointment of such successor, or (b) a successor shall not have been appointed by the Authority or the Owners as provided in Section 9.08 on such date, in which event such resignation shall not take effect until a successor is appointed.

Section 9.07 Removal of the Trustee. The Trustee may be removed at any time with or without cause by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority. So long as no Event of Default, or an event which, with notice or passage of time, or both, would become an Event of Default, shall have occurred and be continuing, the Trustee may be removed at any time, with or without cause, by a resolution of the Authority filed with the Trustee and delivery of a Written Certificate of the Authority to the Trustee with respect to the foregoing. Notwithstanding the foregoing, any such removal of the Trustee shall not be effective until a successor Trustee has been appointed pursuant to Section 9.08.

Section 9.08 Appointment of Successor Trustee. (a) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor Trustee may be appointed by the Authority by a duly executed written instrument signed by an Authorized Officer, but if the Authority does not appoint a successor Trustee within 60 days then by the Owners of a majority in principal amount of the

Bonds then Outstanding, excluding any Bonds held by or for the account of the Authority, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Authority and the predecessor Trustee. After such appointment of a successor Trustee, the Authority shall mail notice of any such appointment by it or the Owners to the Owners of all the Bonds then Outstanding.

(b) If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 120 days after the Trustee shall have given to the Authority written notice as provided in Section 9.06 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, removal, or for any other reason whatsoever, the Trustee or the Owner of any Bond (in any case) may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

(c) Any Trustee appointed under the provisions of this Section 9.08 in succession to the Trustee shall be a bank or trust company organized under the laws of any state or a national banking association and shall have capital stock, surplus and undivided earnings aggregating at least $500,000,000 if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture.

Section 9.09 Transfer of Rights and Property to Successor Trustee. Any successor trustee appointed under this Indenture shall execute, acknowledge and deliver to its predecessor Trustee, and also to the Authority, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee; but the Trustee ceasing to act shall nevertheless, on the Written Request of the Authority or of the successor Trustee, execute, acknowledge and deliver such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property, rights, interests and estates held by it under this Indenture, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the Authority be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the Authority.

Section 9.10 Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all the duties imposed upon it by this Indenture and shall meet the qualifications set forth in Section 9.08(c),

shall be the successor to the Trustee without the execution or filing of any paper or the performance of any further act.

Section 9.11 Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Indenture shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated; and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee, or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is provided, anywhere in said Bonds or in this Indenture, that the certificate of the Trustee shall have.

Section 9.12 Trustee's Reliance. In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture.

Section 9.13 Trustee's Liability. The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith, in accordance with the provisions of this Indenture, in accordance with the direction of the Owners of a majority in principal amount of the Outstanding Bonds, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or, except for its negligence or willful misconduct, exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Bonds.

Section 9.14 Trustee's Agents or Attorneys. The Trustee may execute any of its trusts or powers under this Indenture or perform any of its duties hereunder either directly or by or through agents or attorneys; provided that the Trustee shall be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it hereunder.

ARTICLE X

SUPPLEMENTAL INDENTURES

Section 10.01 Supplemental Indentures Not Requiring Consent of Owners. The Authority and the Trustee may from time to time, subject to the conditions and restrictions in this Indenture contained, enter into a Supplemental Indenture or Indentures, in form satisfactory to the Trustee, which shall thereafter form a part hereof, without the consent of the Owners for any one or more of the following purposes:

(a) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Indenture;

(b) To insert such provisions clarifying matters or questions arising under this Indenture as are necessary or desirable and are not contrary to or inconsistent with this Indenture as theretofore in effect;

(c) To make any other modification or amendment of this Indenture which will not have a material adverse effect on the Owners;

(d) To add to the covenants and agreements of the Authority in this Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with this Indenture as theretofore in effect;

(e) To add to the limitations and restrictions in this Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with this Indenture as theretofore in effect;

(f) To authorize, in compliance with all applicable law, Bonds to be issued in the form of coupon Bonds registrable as to principal only and, in connection therewith, specify and determine the matters and things relative to the issuance of such coupon Bonds, including provisions relating to the timing and manner of provision of any notice required to be given hereunder to the Owners of such coupon Bonds, which are not contrary to or inconsistent with this Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such coupon Bonds;

(g) To provide for the execution of a Commodity Swap in accordance with the provisions hereof;

(h) To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, this Indenture of the Revenues or of any other moneys, securities or funds;

(i) To add to the Events of Default in this Indenture additional Events of Default;

(j) To add to this Indenture any provisions relating to the application of interest earnings on any Fund under this Indenture required by law to preserve the Tax-Exempt Status of the Bonds;

(k) To evidence the appointment of a successor Trustee; or

(l) If the Bonds affected by such change are rated by a Rating Agency, to make any change upon receipt of a Rating Confirmation with respect to the Bonds so affected.

In making any determination under subsection (c), the Authority and the Trustee may rely upon an Opinion of Counsel and/or certificates of investment bankers or other financial professionals or consultants.

Each Supplemental Indenture authorized by this Section shall become effective as of the date of its execution and delivery by the Authority and the Trustee or such later date as shall be specified in such Supplemental Indenture.

Section 10.02 Supplemental Indentures Effective With Consent of Owners. At any time or from time to time, a Supplemental Indenture may be entered into by the Authority and the Trustee subject to notice to and consent by Owners in accordance with and subject to the provisions of Article XI, which Supplemental Indenture, upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

Section 10.03 General Provisions. (a) This Indenture shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and, if applicable, Article XI. Nothing contained in this Article X or, if applicable, Article XI shall affect or limit the right or obligation of the Authority to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.04 or the right or obligation of the Authority to execute and deliver to the Trustee any instrument which elsewhere in this Indenture it is provided shall be delivered to the Trustee.

(b) Any Supplemental Indenture referred to and permitted or authorized by Section 10.01 may be entered into between the Authority and the Trustee without the consent of any of the Owners, but shall become effective only on the conditions, to the extent and at the time provided in said Section. The copy of every Supplemental Indenture shall be accompanied by an Opinion of Counsel stating that such Supplemental Indenture has been duly and lawfully executed in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture, and is a valid and binding obligation of the Authority; provided, that such Opinion may take exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights generally and judicial discretion and the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America and may state that no opinion is being rendered as to the availability of any particular remedy.

(c) The Trustee is hereby authorized to enter into any Supplemental Indenture referred to and permitted or authorized by Section 10.01 or 10.02 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an Opinion of Counsel that such Supplemental Indenture is authorized or permitted by the provisions of this Indenture.

(d) No Supplemental Indenture shall change or modify any of the rights or obligations of the Trustee without its written assent thereto; *provided, however,* this Section shall not affect the rights of the Owners or the Authority to remove the Trustee as provided in Section 9.07 herein.

(e) No Supplemental Indenture (or other amendment to this Indenture) shall change or modify (i) the order of priority of deposits to the Debt Service Fund or the Swap Payment Fund as set forth in clauses (i) and (ii) of Section 5.06(a), respectively, or (ii) the priority of the application of funds following an Event of Default as set forth in Section 8.03, unless the prior written consent of the Swap Counterparty has been obtained.

ARTICLE XI

AMENDMENTS

Section 11.01 Mailing. Any provision in this Article XI for the mailing of a notice or other paper to Owners shall be fully complied with if it is mailed postage prepaid only (a) to each Owner of a Bond then Outstanding at its address, if any, appearing upon the Bond Register, and (b) to the Trustee.

Section 11.02 Powers of Amendment. Any modification or amendment of this Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds hereunder, in any particular set forth in Section 10.02, may be made by a Supplemental Indenture, with the written consent given as provided in Section 11.03 (a) of the Owners of not less than a majority in principal amount of Outstanding Bonds; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like 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 Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of the affected Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written assent thereto.

Section 11.03 Consent of Owners. The Authority and the Trustee may at any time enter into a Supplemental Indenture making a modification or amendment permitted by the provisions of Section 11.02 to take effect when and as provided in this Section 11.03. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Authority to Owners (but failure to mail such copy and request shall not affect the validity of the Supplemental Indenture when consented to as in this Section 11.03 provided). Such Supplemental Indenture shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of Owners of the percentages of Outstanding Bonds specified in Section 11.02 and (b) an Opinion of Counsel stating that such Supplemental Indenture has been duly and lawfully executed by the Authority in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture, and is a valid and binding obligation of the Authority, subject to any applicable bankruptcy, insolvency or other laws affecting creditors' rights generally, may state that no opinion is being rendered as to the availability of any particular remedy. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.02. A certificate or certificates executed by the Trustee and filed with the Trustee and the Authority stating that it has examined such proof and that such proof is sufficient in accordance with Section 12.02 shall be conclusive that the consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be irrevocable and shall be binding upon the Owner of the Bonds giving such consent and, anything in

Section 12.02 to the contrary notwithstanding, upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Owner thereof has notice of such consent). At any time after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture (or have deemed to have consented to such Supplemental Indenture), the Trustee shall make and file with the Trustee and the Authority a written statement that the Owners of such required percentages of Bonds have consented to, such Supplemental Indenture. Such written statements shall be conclusive that such consents have been received. At any time thereafter, notice stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture entered into by the Authority and the Trustee on a stated date, a copy of which is on file with the Trustee) has been consented to by the Owners of the required percentages of Bonds and will be effective as provided in this Section 11.03, may be given to Owners by the Trustee by mailing such notice to Owners (but failure to mail such notice shall not prevent such Supplemental Indenture from becoming effective and binding as in this Section 11.03 provided). A record, consisting of the certificates or statements required or permitted by this Section 11.03 to be made by the Trustee, shall be proof of the matters therein stated.

Section 11.04 Notifications by Unanimous Consent. The terms and provisions of this Indenture and the rights and obligations of the Authority and of the Owners of the Bonds thereunder may be modified or amended in any respect upon the execution of a Supplemental Indenture by the Trustee and the Authority and the consent of the Owners of all of the Bonds then Outstanding, such consent to be given as provided in Section 11.03; *provided, however*, that no such modification or amendment shall change or modify any of the rights or obligations of the Trustee without the filing with the Trustee of the written assent thereto of the Trustee in addition to the consent of the Owners.

Section 11.05 Exclusion of Bonds. Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article XI, and the Authority shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article XI. At the time of any consent or other action taken under this Article XI, the Authority shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 11.06 Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as in Article X or this Article XI provided may, and, if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of its Bond for the purpose at the principal corporate trust office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If the Authority or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Authority to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Owner of any Bond then Outstanding shall be exchanged, without cost to such Owner, for Bonds of the same maturity then Outstanding, upon surrender of such Bonds.

ARTICLE XII

MISCELLANEOUS

Section 12.01 Defeasance. (a) If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in this Indenture, then the pledge of the Trust Estate, and all covenants, agreements and other obligations of the Authority to the Owners made hereunder, shall thereupon cease, terminate and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Authority all moneys or securities held by it pursuant to this Indenture which are not required for the payment of principal or Redemption Price, if applicable, of or interest on Bonds not theretofore surrendered for such payment or redemption. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of any Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and all covenants, agreements and obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and be discharged and satisfied except for remaining rights of registration of transfer and exchange of Bonds.

(b) Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subsection (a) of this Section.

(c) Subject to the provisions of subsection (d) of this Section, any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection (a) of this Section if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to mail as provided in Article IV notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to the Trustee as hereinafter provided prior to the mailing of such notice of redemption) on said date, (ii) there shall have been deposited with the Trustee either moneys (including moneys withdrawn and deposited pursuant to Section 5.08(f)) in an amount which shall be sufficient, or Defeasance Securities (including any Defeasance Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by an Accountant's Certificate), to pay when due the principal or Redemption Price, if applicable, of and the interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not to be redeemed

or paid within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail following the deposit of funds with the Trustee, as soon as practicable, a notice to the Owners of such Bonds at their last addresses appearing upon the Bond Register at the close of business on the last Business Day of the Month preceding the Month for which notice is mailed that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section 12.01 and stating such maturity or redemption date upon which moneys are expected, subject to the provisions of subsection (d) of this Section 12.01, to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to the Trustee as hereinafter provided prior to the mailing of the notice of redemption referred to in clause (i)). Any notice of redemption mailed pursuant to the preceding sentence with respect to Bonds which constitute less than all of the Outstanding Bonds of any maturity shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, if so directed by the Authority (A) prior to the maturity date of Bonds deemed to have been paid in accordance with this Section 12.01 which are not to be redeemed prior to their maturity or (B) prior to the mailing of the notice of redemption referred to in clause (i) above with respect to any Bonds deemed to have been paid in accordance with this Section 12.01 which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and, the Trustee shall immediately thereafter cancel all such Bonds so purchased; *provided, however*, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds (or the deemed cancellation thereof) shall be sufficient (as evidenced by an Accountant's Certificate) to pay when due the maturing principal or Redemption Price, if applicable, and interest due or to become due on all Bonds not so purchased and in respect of which such moneys and Defeasance Securities are being held by the Trustee, on or prior to the redemption date or maturity date thereof, as the case may be. If, at any time (1) prior to the maturity date of Bonds deemed to have been paid in accordance with Section 12.01 which are not to be redeemed prior to their maturity date or (2) prior to the mailing of the notice of redemption referred to in clause (i) with respect to any Bonds deemed to have been paid in accordance with this Section 12.01 which are to be redeemed on any date prior to their maturity, the Authority shall purchase or otherwise acquire any such Bonds and deliver such Bonds to the Trustee prior to their maturity date or redemption date, as the case may be, the Trustee shall immediately cancel all such Bonds so delivered; such delivery of Bonds to the Trustee shall be accompanied by directions from the Authority to the Trustee as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with this Section 12.01. The directions given by the Authority to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Bonds so purchased or delivered and cancelled or deemed cancelled to be applied against the obligation of the Trustee to pay Bonds deemed paid in accordance with this Section 12.01 upon their maturity date or dates and the portion, if any, of such Bonds so purchased or delivered and cancelled or deemed cancelled to be applied against the obligation of the Trustee to redeem Bonds deemed paid in accordance with this Section 12.01 on any date or dates prior to their maturity. In the event that on any date as a result of any purchases, acquisitions and cancellations or deemed cancellations of Bonds as provided in this Section 12.01 the total

amount of moneys and Defeasance Securities remaining on deposit with the Trustee under this Section 12.01 is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of the remaining Bonds in order to satisfy clause (ii) of this subsection (c) of Section 12.01 (as evidenced by an Accountant's Certificate), the Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under this Indenture. Except as otherwise provided in subsections (c) and (d) of this Section 12.01, neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (x) to the extent such cash will not be required at any time for such purpose (as evidenced by an Accountant's Certificate), shall be paid over to the Authority as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under this Indenture, and (y) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient (as evidenced by an Accountant's Certificate), together with the other funds and Defeasance Securities then held by the Trustee for such purpose to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under this Indenture.

(d) Anything in this Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the said date when such Bonds became due and payable, shall, at the Written Request of the Authority, be repaid by the Trustee to the Authority, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of such Bonds; *provided, however*, that before being required to make any such payment to the Authority the Trustee shall, at the expense of the Authority, mail by first class mail, postage prepaid, to the Owners of such Bonds at the addresses of such Owners in the Bond Register, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

Section 12.02 Evidence of Signatures of Owners and Ownership of Bonds. (a) Any request, consent or other instrument which this Indenture may require or permit to be signed and executed by the Owners may be in one or more instruments of similar tenor, and, except as otherwise provided in Section 11.03, shall be signed or executed by such Owners in person or by their attorneys appointed in writing. Proof of (1) the execution of any such instrument, or of an instrument appointing any such attorney, or (2) the holding by any Person of the Bonds shall be

sufficient for any purpose of this Indenture (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The fact and date of the execution by any Owner or its attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the Person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature, guarantee, certificate or affidavit shall also constitute sufficient proof of its authority.

(b) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same, shall be proved by the Bond Register.

(c) Any request or consent by the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the Authority or the Trustee in accordance therewith.

Section 12.03 Moneys Held for Particular Bonds. The amounts held by the Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto.

Section 12.04 Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority and any Owner and their agents and their representatives, any of whom may make copies thereof.

Section 12.05 Parties Interested Herein. Nothing in this Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any Person or corporation, other than the Authority, the Trustee, the Owners of the Bonds, a Qualified Provider and any Depository, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof; and all the covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee, the Owners of the Bonds, the Qualified Providers and any Depository.

Section 12.06 No Recourse on the Bonds. None of the members of the Authority, the members of the Board of Directors of the Authority, any person executing a Bond, or any officer or employee of the Authority shall be liable personally for the principal or Redemption Price of, or interest on, the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or in respect of any undertaking by the Authority under this Indenture.

Section 12.07 Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in this Indenture on the part of the Authority or the Trustee to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be

deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this Indenture.

Section 12.08 Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Indenture, and no interest shall accrue for the period after such nominal date.

Section 12.09 Notices. Except as otherwise provided herein, all notices, requests, demands and other communications required or permitted under this Indenture shall be deemed to have been duly given if delivered or mailed, first class, postage prepaid (or sent by facsimile or other electronic means, confirmed in by mail, as aforesaid), as follows:

(a) If to the Authority:

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678
Attention: Executive Director
Telephone: (916) 774-5320
Facsimile: (916) 746-1220

(b) If to the Trustee:

The Bank of New York Trust Company, N. A.
550 Kearny Street, Suite 600
San Francisco, California 94108-2527
Attention: Corporate Trust
Telephone: (415) 263-2412
Facsimile: (415) 399-1647

or to such other Person or addresses as the respective party hereafter designates in writing to the Authority and the Trustee.

Section 12.10 Continuing Disclosure. The Municipality is obligated pursuant to Section 22.23 of the Supply Agreement to comply with the continuing disclosure requirements of Rule 15c2-12 with respect to the Bonds. As the Authority has no responsibility for the payment of the Bonds other than from Trust Estate, including amounts made available under the Prepaid Gas Agreement and the Guarantee and the other funds pledged therefor under this Indenture, the Authority is not an obligated person with respect to the Bonds for purposes of Rule 15c2-12 and has no responsibility for any continuing disclosure with respect to the Bonds under Rule 15c2-12.

Section 12.11 Counterparts. This Indenture may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original; and such counterparts shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Roseville Natural Gas Financing Authority has caused this Indenture to be signed in its own name and on its behalf by its Executive Director and attested by the Secretary of the Authority, and as evidence of its acceptance of the trusts hereby created, The Bank of New York Trust Company, N. A., has caused this Indenture to be signed in its name and on its behalf by one of its officers duly authorized, all as of the date first above written.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: W. Craig Robinson
Executive Director

ATTEST

Sonia Orozco
Secretary

THE BANK OF NEW YORK TRUST COMPANY, N. A.,
as Trustee

By: _____
Authorized Officer

IN WITNESS WHEREOF, the Roseville Natural Gas Financing Authority has caused this Indenture to be signed in its own name and on its behalf by its Executive Director and attested by the Secretary of the Authority, and as evidence of its acceptance of the trusts hereby created, The Bank of New York Trust Company, N. A., has caused this Indenture to be signed in its name and on its behalf by one of its officers duly authorized, all as of the date first above written.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____
Executive Director

ATTEST

_____
Secretary

THE BANK OF NEW YORK TRUST COMPANY, N. A.,
as Trustee

By: _____
Authorized Officer

Exhibit A

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

_____

REGISTERED REGISTERED

NO. $_____

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
_____, ____	_____, 2007		%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: DOLLARS

The Roseville Natural Gas Financing Authority (the "*Authority*"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "*Trustee*"), as the same may be amended and supplemented from time to time (the "*Indenture*").

This Bond is one of an issue of Bonds of the Authority designated as "Gas Revenue Bonds, Series 2007" (herein called the "*Bonds*"), limited to the aggregate principal amount of $209, 350,000, dated as of the dated date identified above, and duly issued under and by virtue of Article 4 of the Act and under and pursuant to the Indenture. The Bonds have been issued for the purpose of providing funds to acquire a supply of natural Gas for the Municipality and to pay related expenses. Except as otherwise provided herein and unless the context clearly indicates otherwise, words and phrases used herein shall have the same meanings as such words and phrases in the Indenture.

All Bonds issued under the Indenture are and will be equally and ratably secured by the pledge and covenants made therein, except as otherwise expressly provided or permitted in or pursuant to the Indenture. The Indenture permits the Authority to issue obligations to refund Bonds, which obligations may be payable from, and securerdby a pledge of, the Revenues on a parity with the Bonds.

This Bond is a special obligation of the Authority and the principal and Redemption Price of, and interest on, this Bond are payable solely from the Revenues and the other funds pledged therefor under the Indenture and shall not constitute a charge against the general credit of the Authority. This Bond is not secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Revenues and the other funds pledged pursuant to the Indenture which are subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the State of California, the Authority or any other public agency, including the Municipality, is pledged to the payment of the principal or Redemption Price of or the interest on this Bond. The issuance of this Bond shall not directly, indirectly or contingently obligate the Authority or the Municipality to levy or pledge any form of taxation or to make any appropriation for the payment of this Bond. The payment of the principal or Redemption Price of or interest on this Bond does not constitute a debt, liability or obligation of the State of California or any public agency, including the Municipality, other than the special obligation of the Authority as provided in the Indenture.

Copies of the Indenture are on file at the principal corporate trust office of the Trustee and reference to the Indenture and the Act is made for a description of the pledge and covenants securing the Bonds, the nature, manner and extent of enforcement of such pledge and covenants, the terms and conditions upon which the Bonds were issued, and a statement of the rights, duties, immunities and obligations of the Authority and of the Trustee. Such pledge and other obligations of the Authority under the Indenture may be discharged at or prior to the maturity or redemption of the Bonds upon the making of provision for the payment thereof on the terms and conditions set forth in the Indenture.

The Authority has established a book-entry system of registration for the Bonds. Except as specifically provided otherwise in the Indenture, a Securities Depository (or its nominee) will be the registered owner of this Bond. By acceptance of a confirmation of purchase, delivery or transfer, the Beneficial Owner of this Bond shall be deemed to have agreed to this arrangement. The Securities Depository (or its nominee), as registered owner of this Bond, shall be treated as the Owner of it for all purposes.

The Authority will pay the principal or Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Indenture. Interest will accrue on the unpaid portion of the principal of this Bond from the Interest Payment Date immediately preceding the date of authentication hereof or, if no interest has been paid or duly provided for, from the Dated Date of this Bond, until the entire principal amount of this Bond is paid or duly provided for, and such interest shall be paid in the manner and on the Interest Payment Dates specified in the Indenture.

The Bonds are subject to acceleration or redemption prior to maturity upon the circumstances, at the times, in the amounts, upon payment of the amounts, with the notice, upon the other terms and provisions and with the effect set forth in the Indenture.

This Bond may be transferred or exchanged as provided in the Indenture. The Authority and the Trustee may treat and consider the Person in whose name this Bond is registered on the Bond Register as the Owner and the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or Redemption Price hereof and interest due hereon and for all other purposes whatsoever.

To the extent and in the respects permitted by the Indenture, the Indenture may be modified or amended by action of the Authority taken in the manner and subject to the conditions and exceptions prescribed in the Indenture. Certain such modifications and amendments may be made without the consent of the Owners of the Bonds to the extent provided in the Indenture.

The Owner or Beneficial Owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the pledge or covenants made therein or to take any action with respect to an Event of Default under the Indenture or to institute, appear in, or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

Neither the members of the Authority, the members of the Authority's Board of Directors, nor any person executing this Bond, nor any officer or employee of the Authority shall be individually liable for the principal or Redemption Price of or interest on this Bond or be subject to any personal liability or accountability by reason of the issuance of this Bond or in respect of any undertakings by the Authority under the Indenture.

It is hereby certified and recited that all conditions, acts and things required by the Constitution or statutes of the State of California or by the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of this Bond exist, have happened and have been performed in due time, form and manner, and that the issue of Bonds, together with all other indebtedness of the Authority, is within every debt and other limit prescribed by said Constitution and statutes.

This Bond shall not be valid until the Certificate of Authentication hereon shall have been signed by the Trustee.

IN WITNESS WHEREOF, THE ROSEVILLE NATURAL GAS FINANCING AUTHORITY has caused this Bond to be signed in its name and on its behalf by the manual or facsimile signature of its Executive Director, and attested by the manual or facsimile signature of its Secretary, all as of the issue date specified above.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By_____
Executive Director

ATTEST

_____
Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION]

This Bond is one of the Bonds described in the within mentioned Indenture and is one of the Gas Revenue Bonds, Series 2007, of Roseville Natural Gas Financing Authority.

Date of registration and authentication: _____.

The Bank of New York Trust Company, N. A.,
as Trustee

By_____
Authorized Officer

Customary abbreviations may be used in the name of a Owner or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/T/M/A (= Uniform Transfers to Minors Act).

The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	—	as tenants in common	UNIF TRAN MIN ACT
TEN ENT	—	as tenants by the entirety	_____ Custodian _____
JT TEN	—	as joint tenants with right	(Cust) (Minor)

of survivorship and not as under Uniform Transfers to Minors Act of

tenants in common _____

(State)

Additional abbreviations may also be used though not in list above.

[FORM OF ASSIGNMENT]

For Value Received, the undersigned sells, assigns and transfers unto _____

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____
(Name and Address of Assignee)

_____
the within Bond of ROSEVILLE NATURAL GAS FINANCING AUTHORITY, and hereby irrevocably constitutes and appoints

_____

_____
attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Date: _____

SIGNATURE GUARANTEED:

_____

Notice: Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Trustee, which requirements include membership or participation in STAMP or such other "signature guarantee program" as may be determined by the Trustee in addition to, or in substitution for, STAMP, all in accordance with the Securities and Exchange Act of 1934, as amended.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

Schedule I

SCHEDULED DEBT SERVICE DEPOSITS

[See attached.]

Schedule I – Scheduled Debt Service Deposits

Month of Transfer	Scheduled Debt Service Deposit	Month of Transfer	Scheduled Debt Service Deposit
02/2007	$10,391,964.17	05/2012	$527,715.00
02/2008	1,299,120.23	06/2012	654,366.60
03/2008	1,020,249.00	07/2012	949,887.00
04/2008	545,305.50	08/2012	2,617,466.40
05/2008	527,715.00	09/2012	2,617,466.40
06/2008	654,366.60	10/2012	2,110,860.00
07/2008	949,887.00	11/2012	1,308,733.20
08/2008	2,588,885.81	12/2012	1,688,688.00
09/2008	2,617,466.40	01/2013	1,199,672.10
10/2008	2,110,860.00	02/2013	1,271,655.27
11/2008	1,308,733.20	03/2013	985,068.00
12/2008	1,688,688.00	04/2013	545,305.50
01/2009	1,199,672.10	05/2013	527,715.00
02/2009	1,301,566.46	06/2013	654,366.60
03/2009	985,068.00	07/2013	949,887.00
04/2009	545,305.50	08/2013	2,617,466.40
05/2009	527,715.00	09/2013	2,617,466.40
06/2009	654,366.60	10/2013	2,110,860.00
07/2009	949,887.00	11/2013	1,308,733.20
08/2009	2,585,372.72	12/2013	1,688,688.00
09/2009	2,617,466.40	01/2014	1,199,672.10
10/2009	2,110,860.00	02/2014	1,271,672.20
11/2009	1,308,733.20	03/2014	985,068.00
12/2009	1,688,688.00	04/2014	545,305.50
01/2010	1,199,672.10	05/2014	527,715.00
02/2010	1,269,654.44	06/2014	654,366.60
03/2010	985,068.00	07/2014	949,887.00
04/2010	545,305.50	08/2014	2,617,466.40
05/2010	527,715.00	09/2014	2,617,466.40
06/2010	654,366.60	10/2014	2,110,860.00
07/2010	949,887.00	11/2014	1,308,733.20
08/2010	2,617,466.40	12/2014	1,688,688.00
09/2010	2,617,466.40	01/2015	1,199,672.10
10/2010	2,110,860.00	02/2015	1,270,269.10
11/2010	1,308,733.20	03/2015	985,068.00
12/2010	1,688,688.00	04/2015	545,305.50
01/2011	1,199,672.10	05/2015	527,715.00
02/2011	1,269,491.84	06/2015	654,366.60
03/2011	985,068.00	07/2015	949,887.00
04/2011	545,305.50	08/2015	2,617,466.40
05/2011	527,715.00	09/2015	2,617,466.40
06/2011	654,366.60	10/2015	2,110,860.00
07/2011	949,887.00	11/2015	1,308,733.20
08/2011	2,617,466.40	12/2015	1,688,688.00
09/2011	2,617,466.40	01/2016	1,199,672.10
10/2011	2,110,860.00	02/2016	1,273,083.22
11/2011	1,308,733.20	03/2016	1,020,249.00
12/2011	1,688,688.00	04/2016	545,305.50
01/2012	1,199,672.10	05/2016	527,715.00
02/2012	1,273,654.60	06/2016	654,366.60
03/2012	1,020,249.00	07/2016	949,887.00
04/2012	545,305.50	08/2016	2,617,466.40

Schedule I – Scheduled Debt Service Deposits

Month of Transfer	Scheduled Debt Service Deposit	Month of Transfer	Scheduled Debt Service Deposit
09/2016	$2,617,466.40	01/2021	$1,199,672.10
10/2016	2,110,860.00	02/2021	1,273,238.45
11/2016	1,308,733.20	03/2021	985,068.00
12/2016	1,688,688.00	04/2021	545,305.50
01/2017	1,199,672.10	05/2021	527,715.00
02/2017	1,271,945.89	06/2021	654,366.60
03/2017	985,068.00	07/2021	949,887.00
04/2017	545,305.50	08/2021	2,617,466.40
05/2017	527,715.00	09/2021	2,617,466.40
06/2017	654,366.60	10/2021	2,110,860.00
07/2017	949,887.00	11/2021	1,308,733.20
08/2017	2,617,466.40	12/2021	1,688,688.00
09/2017	2,617,466.40	01/2022	1,199,672.10
10/2017	2,110,860.00	02/2022	1,269,440.39
11/2017	1,308,733.20	03/2022	985,068.00
12/2017	1,688,688.00	04/2022	545,305.50
01/2018	1,199,672.10	05/2022	527,715.00
02/2018	1,270,718.10	06/2022	654,366.60
03/2018	985,068.00	07/2022	949,887.00
04/2018	545,305.50	08/2022	2,617,466.40
05/2018	527,715.00	09/2022	2,617,466.40
06/2018	654,366.60	10/2022	2,110,860.00
07/2018	949,887.00	11/2022	1,308,733.20
08/2018	2,617,466.40	12/2022	1,688,688.00
09/2018	2,617,466.40	01/2023	1,199,672.10
10/2018	2,110,860.00	02/2023	1,270,263.48
11/2018	1,308,733.20	03/2023	985,068.00
12/2018	1,688,688.00	04/2023	545,305.50
01/2019	1,199,672.10	05/2023	527,715.00
02/2019	1,269,620.27	06/2023	654,366.60
03/2019	985,068.00	07/2023	949,887.00
04/2019	545,305.50	08/2023	2,617,466.40
05/2019	527,715.00	09/2023	2,617,466.40
06/2019	654,366.60	10/2023	2,110,860.00
07/2019	949,887.00	11/2023	1,308,733.20
08/2019	2,617,466.40	12/2023	1,688,688.00
09/2019	2,617,466.40	01/2024	1,199,672.10
10/2019	2,110,860.00	02/2024	1,269,611.69
11/2019	1,308,733.20	03/2024	1,020,249.00
12/2019	1,688,688.00	04/2024	545,305.50
01/2020	1,199,672.10	05/2024	527,715.00
02/2020	1,273,125.89	06/2024	654,366.60
03/2020	1,020,249.00	07/2024	949,887.00
04/2020	545,305.50	08/2024	2,617,466.40
05/2020	527,715.00	09/2024	2,617,466.40
06/2020	654,366.60	10/2024	2,110,860.00
07/2020	949,887.00	11/2024	1,308,733.20
08/2020	2,617,466.40	12/2024	1,688,688.00
09/2020	2,617,466.40	01/2025	1,199,672.10
10/2020	2,110,860.00	02/2025	1,271,213.37
11/2020	1,308,733.20	03/2025	985,068.00
12/2020	1,688,688.00	04/2025	545,305.50

Schedule I – Scheduled Debt Service Deposits

Month of Transfer	Scheduled Debt Service Deposit
05/2025	$527,715.00
06/2025	654,366.60
07/2025	949,887.00
08/2025	2,617,466.40
09/2025	2,617,466.40
10/2025	2,110,860.00
11/2025	1,308,733.20
12/2025	1,688,688.00
01/2026	1,199,672.10
02/2026	1,272,328.23
03/2026	985,068.00
04/2026	545,305.50
05/2026	527,715.00
06/2026	654,366.60
07/2026	949,887.00
08/2026	2,617,466.40
09/2026	2,617,466.40
10/2026	2,110,860.00
11/2026	1,308,733.20
12/2026	1,688,688.00
01/2027	1,199,672.10
02/2027	1,273,467.92
03/2027	985,068.00
04/2027	545,305.50
05/2027	527,715.00
06/2027	654,366.60
07/2027	949,887.00
08/2027	2,617,466.40
09/2027	2,617,466.40
10/2027	2,110,860.00
11/2027	1,308,733.20
12/2027	1,688,688.00
01/2028	1,199,672.10

Schedule II

TERMS OF COMMODITY SWAPS

For each calendar month beginning with January, 2008 and ending with December, 2027, the Swap Counterparty, initially JPMorgan Chase Bank, National Association, will determine the difference between the published monthly Gas index price and a single fixed price.

If a monthly Gas index price exceeds the fixed price, the Authority will owe the difference to the Swap Counterparty. If the fixed price exceeds a monthly Gas index price, the Swap Counterparty will owe the difference to the Authority.

All payments from the Authority or the Swap Counterparty will be due on the 25th day of the calendar month following the month to which the monthly Gas index price relates, or if such 25th day is not a Business Day, then the following Business Day.

Schedule III

AMORTIZED VALUE

[See attached.]

Schedule III – Schedule of Amortized Value of the Series 2007 Bonds

Bond Redemption Date	Amortized Value	Bond Redemption Date	Amortized Value
04/02/2007	$224,643,342.15	11/30/2011	$199,503,055.45
04/30/2007	224,563,961.25	01/03/2012	199,407,189.70
05/31/2007	224,478,589.70	01/31/2012	199,327,829.50
07/02/2007	224,396,224.25	02/29/2012	191,981,369.30
07/31/2007	224,322,189.15	04/02/2012	191,882,761.95
08/31/2007	224,238,047.45	04/30/2012	191,801,311.30
10/01/2007	224,148,593.65	05/31/2012	191,713,434.75
10/31/2007	224,061,878.45	07/02/2012	191,628,013.25
11/30/2007	223,980,417.45	07/31/2012	191,550,691.65
12/31/2007	223,896,365.55	08/31/2012	191,463,855.75
01/31/2008	223,817,398.20	10/01/2012	191,372,442.30
02/29/2008	223,738,294.80	10/31/2012	191,283,351.65
03/31/2008	223,640,683.85	11/30/2012	191,199,567.15
04/30/2008	223,555,224.15	12/31/2012	191,112,484.80
06/02/2008	223,463,490.50	01/31/2013	191,030,591.20
06/30/2008	223,385,858.40	02/28/2013	183,280,069.55
07/31/2008	223,302,866.90	04/01/2013	183,185,068.80
09/02/2008	223,211,698.25	04/30/2013	183,104,033.50
09/30/2008	223,125,138.90	05/31/2013	183,019,545.55
10/31/2008	223,031,958.90	07/01/2013	182,940,333.10
12/01/2008	222,944,151.00	07/31/2013	182,863,026.35
12/31/2008	222,859,318.60	09/03/2013	182,774,121.90
02/02/2009	222,774,591.20	09/30/2013	182,694,521.85
03/02/2009	216,040,930.25	10/31/2013	182,606,158.00
03/31/2009	215,950,612.00	12/02/2013	182,520,043.70
04/30/2009	215,863,130.25	12/31/2013	182,441,783.60
06/01/2009	215,771,737.55	01/31/2014	182,362,790.00
06/30/2009	215,688,913.40	02/28/2014	174,260,337.85
07/31/2009	215,603,146.30	03/31/2014	174,169,424.90
08/31/2009	215,513,479.95	04/30/2014	174,091,895.35
09/30/2009	215,421,431.30	06/02/2014	174,008,395.65
11/02/2009	215,322,464.00	06/30/2014	173,937,294.70
11/30/2009	215,238,610.05	07/31/2014	173,860,762.95
12/31/2009	215,148,119.65	09/02/2014	173,778,434.35
02/01/2010	215,063,809.30	09/30/2014	173,699,558.35
03/01/2010	208,322,820.35	10/31/2014	173,614,841.60
03/31/2010	208,227,056.30	12/01/2014	173,534,889.60
04/30/2010	208,136,769.00	12/31/2014	173,457,446.30
06/01/2010	208,042,825.85	02/02/2015	173,379,344.30
06/30/2010	207,957,302.95	03/02/2015	164,867,286.55
08/02/2010	207,865,658.40	03/31/2015	164,790,941.40
08/31/2010	207,776,255.50	04/30/2015	164,717,149.85
09/30/2010	207,681,435.50	06/01/2015	164,640,073.95
11/01/2010	207,582,801.00	06/30/2015	164,569,609.20
11/30/2010	207,493,008.30	07/31/2015	164,497,029.05
12/31/2010	207,400,060.85	08/31/2015	164,421,055.85
01/31/2011	207,312,084.90	09/30/2015	164,343,623.55
02/28/2011	200,316,172.30	11/02/2015	164,259,985.00
03/31/2011	200,213,865.50	11/30/2015	164,189,119.10
05/02/2011	200,120,535.30	12/31/2015	164,112,530.55
05/31/2011	200,035,423.75	02/01/2016	164,040,757.80
06/30/2011	199,952,606.50	02/29/2016	155,112,372.85
08/01/2011	199,866,536.55	03/31/2016	155,032,837.60
08/31/2011	199,777,169.60	05/02/2016	154,957,929.25
09/30/2011	199,685,566.35	05/31/2016	154,889,563.45
10/31/2011	199,589,831.75	06/30/2016	154,823,036.30

Schedule III – Schedule of Amortized Value of the Series 2007 Bonds

Bond Redemption Date	Amortized Value	Bond Redemption Date	Amortized Value
08/01/2016	$154,753,790.75	03/31/2021	$99,712,577.70
08/31/2016	154,682,050.65	04/30/2021	99,664,819.30
09/30/2016	154,608,126.55	06/01/2021	99,615,038.15
10/31/2016	154,531,208.75	06/30/2021	99,569,921.60
11/30/2016	154,461,655.30	08/02/2021	99,521,300.05
01/03/2017	154,384,398.75	08/31/2021	99,473,866.75
01/31/2017	154,320,903.85	09/30/2021	99,423,528.10
02/28/2017	144,913,982.55	11/01/2021	99,371,543.30
03/31/2017	144,836,397.45	11/30/2021	99,323,923.55
05/01/2017	144,767,838.15	12/31/2021	99,274,706.15
05/31/2017	144,701,468.10	01/31/2022	99,228,340.50
06/30/2017	144,638,461.95	02/28/2022	87,267,453.85
07/31/2017	144,573,401.65	03/31/2022	87,218,214.05
08/31/2017	144,505,614.80	05/02/2022	87,173,117.55
10/02/2017	144,431,644.90	05/31/2022	87,131,977.55
10/31/2017	144,363,587.65	06/30/2022	87,091,822.80
11/30/2017	144,297,812.60	08/01/2022	87,050,127.65
01/02/2018	144,227,318.25	08/31/2022	87,006,752.00
01/31/2018	144,165,513.90	09/30/2022	86,962,238.70
02/28/2018	134,326,835.75	10/31/2022	86,915,864.30
04/02/2018	134,252,518.35	11/30/2022	86,873,592.75
04/30/2018	134,192,482.90	01/03/2023	86,827,352.25
05/31/2018	134,128,052.30	01/31/2023	86,789,155.30
07/02/2018	134,065,147.15	02/28/2023	74,233,444.15
07/31/2018	134,008,343.30	03/31/2023	74,191,156.85
08/31/2018	133,944,670.85	05/01/2023	74,153,219.45
10/01/2018	133,877,262.95	05/31/2023	74,116,462.20
10/31/2018	133,811,681.75	06/30/2023	74,082,006.95
11/30/2018	133,749,988.30	07/31/2023	74,045,839.55
12/31/2018	133,685,957.00	08/31/2023	74,008,367.55
01/31/2019	133,625,699.70	10/02/2023	73,967,434.50
02/28/2019	123,296,427.65	10/31/2023	73,930,094.05
04/01/2019	123,229,495.50	11/30/2023	73,893,766.30
04/30/2019	123,171,649.25	01/02/2024	73,854,955.10
05/31/2019	123,111,828.60	01/31/2024	73,821,054.85
07/01/2019	123,055,305.55	02/29/2024	60,634,665.20
07/31/2019	123,000,582.15	04/01/2024	60,600,623.60
09/03/2019	122,937,403.10	04/30/2024	60,570,447.65
09/30/2019	122,881,312.05	05/31/2024	60,538,793.85
10/31/2019	122,818,348.50	07/01/2024	60,509,367.50
12/02/2019	122,757,304.30	07/31/2024	60,480,240.15
12/31/2019	122,701,654.50	09/03/2024	60,446,976.50
01/31/2020	122,645,608.10	09/30/2024	60,417,258.85
03/02/2020	111,787,946.30	10/31/2024	60,384,133.85
03/31/2020	111,734,068.65	12/02/2024	60,351,883.10
04/30/2020	111,681,315.90	12/31/2024	60,322,879.35
06/01/2020	111,626,174.70	01/31/2025	60,293,745.35
06/30/2020	111,576,541.95	02/28/2025	46,404,519.75
07/31/2020	111,524,407.85	03/31/2025	46,377,379.90
08/31/2020	111,469,965.35	04/30/2025	46,353,906.45
09/30/2020	111,414,540.20	06/02/2025	46,328,897.75
11/02/2020	111,355,126.95	06/30/2025	46,307,402.80
11/30/2020	111,304,245.05	07/31/2025	46,284,242.35
12/31/2020	111,249,911.05	09/02/2025	46,259,103.40
02/01/2021	111,198,805.85	09/30/2025	46,235,339.35
03/01/2021	99,763,116.15	10/31/2025	46,209,429.10

Schedule III – Schedule of Amortized Value of the Series 2007 Bonds

Bond Redemption Date	Amortized Value
12/01/2025	$46,185,497.35
12/31/2025	46,162,169.20
02/02/2026	46,138,979.00
03/02/2026	31,589,659.40
03/31/2026	31,573,238.45
04/30/2026	31,557,130.50
06/01/2026	31,540,396.55
06/30/2026	31,524,914.60
07/31/2026	31,509,119.65
08/31/2026	31,492,393.40
09/30/2026	31,475,041.15
11/02/2026	31,456,749.90
11/30/2026	31,441,267.95
12/31/2026	31,424,686.65
02/01/2027	31,409,349.65
03/01/2027	16,132,653.15
03/31/2027	16,123,673.55
04/30/2027	16,115,335.35
06/01/2027	16,106,676.45
06/30/2027	16,098,658.95
08/02/2027	16,090,160.40
08/31/2027	16,081,501.50
09/30/2027	16,072,361.55
11/01/2027	16,063,061.25
11/30/2027	16,054,723.05
12/31/2027	16,046,224.50
01/31/2028	16,038,367.35

This Preliminary Official Statement and the information herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 18, 2007

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:
Moody's: ___
Standard & Poor's: ___
Fitch: ___
(See "RATINGS" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$197,650,000*
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

Dated: Date of Issuance **Due: February 15, as shown on the inside cover**

The Roseville Natural Gas Financing Authority (the *"Issuer"*) is issuing its Gas Revenue Bonds, Series 2007 (the *"Bonds"*) under a Trust Indenture dated as of February 1, 2007 (the *"Indenture"*), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the *"Trustee"*), to finance the cost of acquiring a twenty-year supply of natural gas for the City of Roseville, California (the *"City,"* and from time to time, the *"Municipality"*) at a discount from the Index Price (defined herein) pursuant to an Agreement for Purchase and Sale of Natural Gas dated as of January ___, 2007 (the *"Prepaid Gas Agreement"*), between the Issuer and Merrill Lynch Commodities, Inc. (the *"Seller"*). All of the gas purchased by the Issuer will be sold to the Municipality pursuant to a Natural Gas Supply Agreement dated as of February 1, 2007 (the *"Supply Agreement"*), between the Issuer and the Municipality and is expected to be used in the Municipality's electrical power generating facilities. See "THE GAS SUPPLY ACQUISITION" herein.

Interest on the Bonds is payable semiannually on February 15 and August 15 of each year, commencing August 15, 2007. The Bonds will be issued in book-entry form through the facilities of The Depository Trust Company (*"DTC"*). Payments of principal of, premium, if any, and interest on the Bonds will be made directly to DTC, and will subsequently be disbursed to DTC Participants and thereafter to Beneficial Owners of the Bonds, all as described herein. See "TERMS OF THE BONDS—Book-Entry Only System" herein. The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein. See "TERMS OF THE BONDS—Extraordinary Redemption" herein.

The proceeds of the Bonds will be used to (i) finance the Prepayment under the Prepaid Gas Agreement, (ii) fund capitalized interest, (iii) pay the premium for the Customer Insurance Policy (defined below) and (iv) pay all or a portion of the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price (defined herein) thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate (defined herein) pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues (defined herein) and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State of California (the *"State"*), the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture). The payment obligations of the Municipality under the Supply Agreement are limited obligations payable solely from the Municipality's electrical utility system revenues. In no event will the Municipality be obligated to exercise the power of taxation in order to make such payments. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein.

The obligations of the Municipality to pay the Issuer for gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed by Financial Security Assurance Inc. ("FSA") pursuant to a financial guaranty insurance policy issued by FSA to the Issuer and assigned by the Issuer to the Trustee (the *"Customer Insurance Policy"*). The Customer Insurance Policy insures only the payments required to be made by the Municipality for the gas delivered or deemed delivered pursuant to the Supply Agreement and does not insure other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC." herein.

The Seller's payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (in such capacity, the *"Seller Guarantor"*) pursuant to a guarantee (the *"Seller Guarantee"*) in favor of the Issuer. The Seller Guarantee guarantees only the payments required to be made by the Seller under the Prepaid Gas Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE" herein.

The Issuer and the Seller will enter into a funding and assignment agreement dated as of February 1, 2007 (the *"Funding Agreement"*). The Funding Agreement provides that the Seller will advance funds to the Issuer under certain circumstances in the event there is a deficiency in the Termination Fund or a deficiency in the Debt Service Fund. Under certain other circumstances, the Seller has the right, in its sole determination and discretion, to make advances to cover fund deficiencies. The Seller's obligations under the Funding Agreement will be guaranteed under a funding guarantee (the *"Funding Guarantee"*) provided by the Seller Guarantor. The Funding Guarantee guarantees only the payments required to be made by the Seller under the Funding Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement" and "—The Prepaid Gas Agreement" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE" herein.

The Bonds are offered, when, as and if issued by the Issuer and accepted by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Issuer, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, San Francisco, California. Certain legal matters will be passed upon for the Issuer by the City Attorney of the City of Roseville, California (the *"City Attorney"*) as Issuer's Counsel. Certain legal matters will be passed upon for the Municipality by the City Attorney. It is expected that the Bonds will be available for delivery through DTC on or about February 6, 2007.

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

Merrill Lynch & Co.

* Preliminary, subject to change.

$197,650,000*
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

Maturities, Amounts, Interest Rates, Yields and CUSIPS†

MATURITY (February 15)	PRINCIPAL AMOUNT	INTEREST RATE	YIELD	CUSIP†
2009	$	%	%	
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				

* Preliminary, subject to change.

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ROSEVILLE NATURAL GAS FINANCING AUTHORITY
311 Vernon Street
Roseville, California 95678

DIRECTORS AND OFFICERS OF THE ISSUER*

Jim Gray	Mayor/Chair
Gina Garbolino	Mayor Pro Tem/Vice Chair
Richard Roccucci	City Council Member/Board Member
Carol Garcia	City Council Member/Board Member
John Allard	City Council Member/Board Member
Craig Robinson	City Manager/Executive Director
Sonia Orozco	City Clerk/Secretary
Russ Branson	Administrative Services Director/Treasurer

TRUSTEE

The Bank of New York Trust
Company, N.A.
San Francisco, California

FINANCIAL ADVISOR

McDonald Partners, Inc.
Alamo, California

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

* The Issuer is a joint action agency created by the City and the City of Roseville Redevelopment Authority. The City is governed by a five-member council, each member of which serves on the Board of Directors of the Issuer and the Board of Directors of the Redevelopment Authority. Currently, the officers of the Issuer are employees of the City. See "THE ISSUER" herein.

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No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Municipality, FSA, the Seller, Seller Guarantor or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Municipality since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

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.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR WITH ANY STATE SECURITIES COMMISSION.

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

Other than with respect to information concerning Financial Security Assurance Inc. ("FSA") contained under the caption "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.," none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

The CUSIP numbers are included in this Official Statement for the convenience of the owners and potential owners of the Bonds. No assurance can be given that the CUSIP numbers for a particular maturity of Bonds will remain the same after the date of issuance and delivery of the Bonds. None of the Issuer, the Trustee or the Underwriter assumes any responsibility for the accuracy of such numbers.

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OFFICIAL STATEMENT

$197,650,000*
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

INTRODUCTION

This introduction is only a brief review of, and is qualified by more complete information contained elsewhere in, this Official Statement, including the cover page and the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

This Official Statement, including its appendices, is furnished to provide certain information in connection with the issuance and sale of $197,650,000* in aggregate principal amount of Gas Revenue Bonds, Series 2007 (the "*Bonds*") of the Roseville Natural Gas Financing Authority (the "*Issuer*"). The Issuer is a joint exercise of powers agency and public entity of the State of California that has been organized for the purpose, *inter alia*, of acquiring, financing, and supplying natural gas for the City of Roseville, California (the "*City*" and, from time to time, the "*Municipality*") at a discount from the Index Price (which means, for each Delivery Month and each day within a Delivery Month, the first of the month index for such Delivery Month stated in U.S. Dollars, published under the heading "Spot Gas Prices; California: PG&E Citygate: avg." as reported by Natural Gas Intelligence in the relevant issue of NGI's Bidweek Survey). See "THE ISSUER" and "THE GAS SUPPLY ACQUISITION."

Certain capitalized terms used in this Official Statement are used with the meanings assigned to such terms in "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." In addition, certain capitalized terms used to describe provisions of the Prepaid Gas Agreement and the Supply Agreement (each defined herein) are defined under the caption "THE GAS SUPPLY ACQUISITION" or in such respective documents.

The Bonds will be issued under a Trust Indenture, dated as of February 1, 2007 (the "*Indenture*"), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "*Trustee*"). The net proceeds from the sale of the Bonds will be used to make a lump sum prepayment (the "*Prepayment*") to Merrill Lynch Commodities, Inc. (the "*Seller*") to acquire a supply of natural gas (the "*Gas Supply*") for delivery over a period of twenty years for its customer, the Municipality. The Gas Supply is being purchased by the Issuer from the Seller pursuant to an Agreement for Purchase and Sale of Natural Gas, dated as of January ___, 2007 (the "*Prepaid Gas Agreement*"), between the Issuer and Seller. The Gas Supply being purchased pursuant to the Prepaid Gas Agreement will be sold by the Issuer to the Municipality pursuant to a Natural Gas Supply Agreement, dated as of February 1, 2007 (the "*Supply Agreement*"), between the Issuer and the Municipality.

The Issuer is entering into the Prepaid Gas Agreement and the Municipality and the Issuer are entering into the Supply Agreement in order to secure for the Municipality a fixed quantity of natural gas. The Municipality will pay the Issuer a variable price based on a specified discount to the monthly market index for the Municipality's delivery point, the Pacific Gas and Electric Company Citygate (PG&E Citygate"), for all gas delivered or deemed delivered under the Supply Agreement (the "*Contract Price*").

Failure by the Municipality to pay for gas delivered within two Business Days of when such payment is due will result in an immediate termination of the Supply Agreement and an obligation of the Seller to remarket the Gas Supply pursuant to the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Supply Agreement."

The foregoing descriptions of the Prepaid Gas Agreement and the Supply Agreement are very brief summaries of the provisions of such agreements. Prospective purchasers of the Bonds should carefully review the summaries of certain provisions of the Prepaid Gas Agreement and the Supply Agreement contained under the caption "THE GAS SUPPLY ACQUISITION."

The price received by the Issuer for gas sold to the City will be hedged by a commodity price swap agreement (the "*Commodity Swap*") between the Issuer and JPMorgan Chase Bank, N.A. (the "*Swap Counterparty*"), under terms that are expected to enable the Issuer to receive a revenue stream with respect to the sale of such gas that is substantially fixed for the life of the Prepaid Gas Agreement. "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge."

In order to hedge its exposure under the Prepaid Gas Agreement, the Seller will enter into a separate commodity price swap agreement (the "*Seller Swap Agreement*") with the Swap Counterparty under which the Seller will pay a fixed gas price to the Swap Counterparty in return for the Swap Counterparty's payment to the Seller of a variable gas price based on the first of the month market index for PG&E Citygate. Nothing in the Seller Swap Agreement relieves the Seller of its obligation to perform under the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge."

The Issuer and/or the Trustee will enter into a Forward Purchase Agreement to purchase securities which are Qualified Investments with moneys to be deposited in the Debt Service Fund during the term of such Forward Purchase Agreement. The timely performance of the provider of such Forward Purchase Agreement may be necessary for the Issuer to have adequate funds to pay debt service on the Bonds. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Forward Purchase Agreement."

The obligations of the Municipality under the Supply Agreement are generally limited to the payment of the Contract Price for gas delivered or deemed delivered to the delivery point specified in the Supply Agreement. The Municipality is obligated to make payments to the Issuer under the Supply Agreement if and only if gas is actually delivered (or deemed delivered) to the delivery point set forth in the Supply Agreement. The Municipality's payment obligations pursuant to the Supply Agreement are payable as operation expenses from the revenues of the Municipality's electric utility system. The Municipality's payments for gas delivered or deemed delivered pursuant to the Supply Agreement (and only such payments) will be guaranteed by Financial Security Assurance Inc. ("*FSA*") pursuant to a financial guaranty insurance policy issued by FSA in favor of the Issuer (the "*Customer Insurance Policy*"). Other payments that may be payable by the Municipality to the Issuer under the Supply Agreement will not be covered by the Customer Insurance Policy. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Upon the occurrence of any of certain "Triggering Events" under the Prepaid Gas Agreement or (a) the imposition of certain taxes or (b) certain changes in applicable law and, in either case (a) or (b), the parties have been unable to equitably adjust their rights and obligations in light of such circumstances as provided in the Prepaid Gas Agreement (the "*Section 17 Events*"), the Prepaid Gas Agreement may be terminated and, upon such termination, amounts due by a party to the other party, including the Termination Amount (as defined in the Prepaid Gas Agreement) to be paid by the Seller, is to be invoiced

and paid in accordance with the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION." The Seller's payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (the "*Seller Guarantor*") pursuant to a guarantee (the "*Seller Guarantee*") in favor of the Issuer. The Seller Guarantee guarantees only the payments required to be made by the Seller under the Prepaid Gas Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION" and "THE SELLER, THE SELLER GUARANTOR AND THE SELLER GUARANTEE."

The Issuer and the Seller will enter into a funding and assignment agreement dated as of February 1, 2007 (the "*Funding Agreement*"). The Funding Agreement provides that the Seller will advance funds to the Issuer: (a) in the event that upon the early termination of the Prepaid Gas Agreement the amount in the Termination Fund, after the deposit in the Termination Fund of the Termination Amount due by the Seller under the Prepaid Gas Agreement and the transfer to the Termination Fund of amounts in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund, is less than the Redemption Price necessary to redeem the Bonds, including accrued interest to the Early Redemption Date and the amount necessary to pay a termination payment, if any, due to the Forward Purchase Agreement Provider, unless such deficiency was caused by a payment default by the Swap Counterparty (a *"Covered Termination Deficiency"*) or (b) in the event that there is a deficiency in the Debt Service Fund on any date because the Issuer has failed to receive regularly scheduled swap payments under the Commodity Swap due to the occurrence of (i) a termination event under the Commodity Swap where the Swap Counterparty is the affected party or (ii) an Issuer default under the Commodity Swap, and such failure occurs on or after the applicable termination event or event of default but prior to the date on which the Commodity Swap is either terminated in accordance with its terms or, if the Commodity Swap is assigned in accordance with its terms, the date on which regularly scheduled swap payments by the successor counterparty commence (a *"Covered Swap Deficiency"*). If there is a shortfall in the Debt Service Fund, the Swap Payment Fund or the Termination Fund for any other reason (a "*Covered General Deficiency*"), the Seller has the right, within its sole determination and discretion, to make an advance to cover such Fund deficiency. The Seller's obligations under the Funding Agreement will be guaranteed under a funding guarantee (the "*Funding Guarantee*") provided by the Seller Guarantor. The Funding Guarantee guarantees only the payments required to be made by the Seller under the Funding Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

The Indenture precludes the Issuer from issuing any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incurring obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other of its assets. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate or any other of its assets, other than the lien and charge created by the Indenture to secure the Bonds, and the lien and charge securing such refunding obligations and the Commodity Swap.

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate (defined herein) pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues (defined herein) and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State, the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest

on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture). See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

This Official Statement and the Appendices hereto include and incorporate by reference financial and other information about the Municipality, the Seller, the Seller Guarantor, the Swap Counterparty and FSA that may be relevant to a potential purchaser of the Bonds in considering the Municipality's ability to make the payments required to be made by it under the Supply Agreement, the Seller's ability to meet its gas delivery and payment obligations under the Prepaid Gas Agreement, the Seller Guarantor's ability to meet its obligations under the Seller Guarantee and the Funding Guarantee, FSA's ability to make payments under the Customer Insurance Policy and the Swap Counterparty's ability to make payments under the Commodity Swap.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement contains brief descriptions of, among other matters, the Issuer, the Municipality, the Seller, the Seller Guarantor, the Customer Insurance Policy, FSA, the Funding Agreement, the Bonds, the Indenture, the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Seller Swap Agreement, the Swap Counterparty, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries contained herein and in the Appendices hereto of various statutes, of the Indenture, and other documents are intended as summaries only and are qualified in their entirety by reference to such provisions, statutes, and documents; additionally, references herein to the Bonds are qualified in their entirety to the form thereof included in the Indenture. Copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available upon request, and upon payment to the Issuer of a charge for copying, mailing and handling, from Roseville Electric Utility, 2090 Hilltop Circle, Roseville, California 95747, Attention: Mr. Tom Green, (916) 774-5600. During the period of the offering of the Bonds, copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available, upon request and upon payment of a charge for copying, mailing and handling to Mr. Mark Widener, Merrill Lynch & Co., Global Markets and Investment Banking, 3455 Peachtree Road, The Pinnacle, Suite 200, Atlanta, Georgia 30326, (404) 264-3860.

Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer, the Municipality, the Seller, the Seller Guarantor, the Swap Counterparty and FSA. No dealer, broker, salesperson or other person has been authorized by the Issuer, the Municipality or the Underwriter to give any information or to make any representations other than those contained herein in connection with the offer and sale of the Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer, the Municipality or the Underwriter.

BONDOWNERS' RISKS

Investment in the Bonds is subject to certain risks. Particular attention should be given to the risk factors described under this caption. Any one of these factors, among others, could affect the payment of principal and interest due on the Bonds and the market price of the Bonds. The extent of any such effect cannot be determined at this time. For additional information and investment considerations, see "APPENDIX A—INFORMATION RELATING TO THE CITY OF ROSEVILLE AND THE ELECTRIC SYSTEM."

Limited Obligations of the Issuer

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). The transaction represented by the Prepaid Gas Agreement, the Supply Agreement, and the Commodity Swap represents the only significant business of the Issuer, and the Issuer has no substantial assets or revenues other than those that are pledged to the payment of the Bonds. Accordingly, no financial or operating information with respect to the Issuer is included in this Official Statement. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Limited Obligations; Limitations on Liability" and "THE ISSUER."

Early Redemption of Bonds

Upon the occurrence of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to deposit the Termination Amount with the Trustee, for the account of the Issuer, which will be used, together with other funds, to redeem outstanding Bonds prior to their scheduled maturity as described under the caption "TERMS OF THE BONDS—Extraordinary Redemption."

The Bonds are also subject to mandatory redemption prior to maturity if the Trustee receives notice to the effect that redemption of all or a portion of the Bonds is necessary to preserve the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. The Issuer, the Seller and the Municipality have made certain covenants and by contract terms are bound to take certain actions to minimize the likelihood of such a mandatory redemption. See "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement" and "—The Supply Agreement."

Financial Position of Municipality

The Municipality's obligations under the Supply Agreement are limited obligations payable solely as operating expenses of the Municipality's electric utility system. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Limited Obligations; Limitations on Liability." While there can be no assurance that the ratings on the City's outstanding certificates of participation secured by net revenues of the Municipality's electric utility system will not be reduced or withdrawn, the electric utility system currently has outstanding ratings of A1/A+/A+ by Moody's Investors Service Inc. ("*Moody's*"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("*S&P*"), and Fitch Ratings ("*Fitch*"), respectively. See "APPENDIX A—ELECTRIC SYSTEM FINANCIAL INFORMATION—Indebtedness Payable from Net Revenues of the Electric System."

Although certain payment obligations of the Municipality under the Supply Agreement are insured by FSA pursuant to the Customer Insurance Policy, no assurance can be given that in the event the Municipality fails to make any such payment, the Contract Price will be such that the Customer Insurance Policy limit will not be exceeded. Such circumstances could result in an early termination of the Prepaid Gas Agreement and, in turn, the early redemption of the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.—Customer Insurance Policy Limit." See also "TERMS OF THE BONDS—Extraordinary Redemption" and "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement." Any delay in payment under the Customer Insurance Policy could cause a delay or default in payments by the Issuer of principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information with respect to the

Municipality and with respect to FSA contained in this Official Statement, including the Appendices, in assessing the capacity of the Municipality to make the payments it is required to make under the Supply Agreement and FSA's capacity to make the payments required under the Customer Insurance Policy.

Decline in Municipality Natural Gas Requirements

The gas that the Municipality will be obligated to purchase in any month ranges from 2,500 to 12,000 MMBtu/day, or approximately 53 percent of the Municipality's projected annual natural gas requirement. Although the Municipality is required to purchase and pay for all gas delivered or deemed delivered to it pursuant to the Supply Agreement, it is possible that the Municipality's gas purchase requirements under the Supply Agreement in any month will exceed its natural gas requirements for that month. The City may fail to complete or operate the electric generating facility that is intended to use all of the gas, *i.e.*, the natural gas-fired, combined-cycle electrical generating facility being constructed at Roseville Energy Park (the "*Project*"). Material delays in the Project schedule, a failure to complete the Project, or a failure of the Project to live up to performance expectations do not relieve the Municipality from its obligation to receive gas and to make payments under the Supply Agreement. If the Municipality cannot use gas delivered under the Supply Agreement on any day, the Municipality will resell the gas, either directly or in certain circumstances through remarketing by the Seller, and will bear all risk that the price received for its sale of surplus gas delivered under the Supply Agreement will be below the Contract Price.

Financial Position of Seller and Seller Guarantor

The Seller or Seller Guarantor will be obligated to make certain payments to the Trustee, for the account of the Issuer, upon a failure of the Seller to deliver or the Issuer to take gas under the Prepaid Gas Agreement, whether or not such failure is caused by Force Majeure (as defined in the Prepaid Gas Agreement). In addition, upon termination of the Supply Agreement due to a default by the Municipality, the Seller is obligated under the Prepaid Gas Agreement to remarket the Gas Supply and remit all remarketing proceeds to the Trustee. The ability of the Issuer to pay principal of and interest on the Bonds when due will depend upon the timely payment by the Seller or the Seller Guarantor of such Gas Payments (as defined in the Prepaid Gas Agreement) including, in the event of the termination of the Supply Agreement, remarketing proceeds, to the Trustee.

In the event of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to make a termination payment, and all of the outstanding Bonds will be subject to mandatory redemption prior to maturity. In addition, in the event a Covered Termination Deficiency exists, the Seller or Seller Guarantor is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay the Redemption Price of the Bonds (and accrued interest to the Early Redemption Date (defined herein), if any) will depend upon the payment by the Seller or Seller Guarantor of the Termination Amount and the Mandatory Termination Advance, if any, to the Trustee.

In the event there are insufficient funds in the Debt Service Fund and such failure is due to a Covered Swap Deficiency, the Seller, or the Seller Guarantor, is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay principal and interest when due will depend upon the timely payment by the Seller, or the Seller Guarantor, of the Mandatory Swap Advance to the Trustee.

No assurance can be given that the future financial position of the Seller or the Seller Guarantor will enable either of each to make such payments in a timely manner. Any delay in payment by the Seller or the Seller Guarantor could cause a delay or default in payments of the principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE SELLER, THE SELLER GUARANTOR, THE SELLER

GUARANTEE AND THE FUNDING GUARANTEE" in this Official Statement in assessing the capacity of the Seller and the Seller Guarantor to make the payments required to be made under the Prepaid Gas Agreement, the Funding Agreement, the Seller Guarantee and the Funding Guarantee.

Financial Position of Swap Counterparty

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely receipt of payments made under the Commodity Swap by the Swap Counterparty. The Indenture requires that the Swap Counterparty be rated at least A1/A+/A+ by Moody's, S&P and Fitch respectively. In the event that the Swap Counterparty is assigned one rating that is below Aa3/AA-/AA- by Moody's, S&P or Fitch, respectively, the Swap Counterparty is required to post collateral as described herein. No assurance can be given that the future financial position of the Swap Counterparty will enable it to post sufficient collateral or make regular swap payments in a timely manner. A default by the Swap Counterparty will result in (a) an assignment of the Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days or, (b) if such assignment does not occur within 30 days, a termination of the Commodity Swap and an automatic termination of the Prepaid Gas Agreement. If the Swap Counterparty fails to make a swap payment and has failed to post collateral as required by the Commodity Swap, there may be a shortfall in the Debt Service Fund or the Termination Fund that is not required to be covered by the Seller under the Funding Agreement. In such event, there could be a delay or default in payment by the Issuer of principal and interest due on the Bonds.

Should the Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Supplier are obligated to use their best efforts to assign the Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made to a qualified replacement counterparty, the Commodity Swap will terminate, and an automatic termination of the Prepaid Gas Agreement will occur. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge" in this Official Statement in assessing the capacity of the Swap Counterparty to make the payments required to be made or to post collateral as required under the Commodity Swap.

Performance of Forward Purchase Agreement Provider

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely performance by the Forward Purchase Agreement Provider under the Forward Purchase Agreement. The Indenture requires that if the Forward Purchase Agreement Provider is no longer rated at least Aa3/AA-/AA- by Moody's, S&P and Fitch respectively, then the Forward Purchase Agreement is to require the Forward Purchase Agreement Provider to post collateral based on market conditions. The Indenture further requires that the Issuer (a) replace the Forward Purchase Agreement in the event that the rating of the Forward Purchase Agreement Provider does not meet the minimum requirement and collateral has not been posted and (b) adjust the Contract Price in the Supply Agreement in the event a substitute Forward Purchase Agreement generates lower investment income. Any delay by the Issuer in fulfilling its obligation to adjust the Contract Price, if necessary, could cause a delay or default in payments of principal and interest due on the Bonds.

Structured Financing

The Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement, the Commodity Swap and the Forward Purchase Agreement have been structured so that the Revenues available to the Issuer, together with the amounts on deposit in certain of the Funds held by the Trustee under the Indenture and other amounts available to the Issuer, are expected to be sufficient at all times to provide for the timely payment of the scheduled debt service requirements on the Bonds, the Issuer's

payment obligations to the Swap Counterparty under the Commodity Swap and the Issuer's obligations under the Prepaid Gas Agreement. The Issuer's ability to meet its obligations on the Bonds and those agreements will depend primarily upon the performance by the Seller of its gas delivery and other obligations under the Prepaid Gas Agreement (or the Seller Guarantor under the Seller Guarantee), timely payment by the Municipality under the Supply Agreement (or FSA under the Customer Insurance Policy), timely payment by the Swap Counterparty under the Commodity Swap, timely performance by the Forward Purchase Agreement Provider under the Forward Purchase Agreement, and the performance by the Seller of its obligations under the Funding Agreement (or the Seller Guarantor under the Funding Guarantee).

The principal sources of the Revenues pledged to the payment of the Bonds are the amounts to be received by the Issuer from the sale of the gas to the Municipality under the Supply Agreement, payments received by the Issuer under the Commodity Swap, and the investment earnings received under the Forward Purchase Agreement. Whether those Revenues will be sufficient to enable the Issuer to meet all of its payment obligations on the Bonds and under the Prepaid Gas Agreement and Commodity Swap over the entire term of such agreements will depend upon various factors, including but not limited to:

- The prospects and financial and operational performance of the Seller, or the Seller Guarantor, and the continuing ability of each to timely meet its obligations under the Prepaid Gas Agreement, as well as its obligations under the Funding Agreement, for the term of the Bonds;

- Performance of the Municipality under the Supply Agreement;

- The prospects and financial and operational performance of the Swap Counterparty, or any replacement swap counterparty, and its continuing ability to timely meet its obligations under the Commodity Swap; and

- The ability of the Forward Purchase Agreement Provider, or any replacement provider, to meet its obligations under the Forward Purchase Agreement.

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SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are set forth in the following table.

SOURCES:	
Par Amount of the Bonds	$
Original Issue Premium	
TOTAL	$
USES:	
Prepayment of Prepaid Gas Agreement	$
Capitalized Interest	
Costs of Issuance[1]	
TOTAL	$

[1] Includes underwriter's discount, rating agency and legal fees, Customer Insurance Policy premium and other expenses.

TERMS OF THE BONDS

The Bonds are to be issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, and under and subject to the terms and conditions of the Indenture. Appendix C contains a summary of certain provisions of the Indenture. Prospective purchasers of the Bonds should read Appendix C for a more complete understanding of the terms of the Bonds.

General

The Bonds are issuable in fully registered form only, without coupons, in authorized denominations of $5,000 and any integral multiple thereof. The Bonds will be dated as of the date of issuance and will bear interest from that date to maturity at the rates per annum shown on the inside cover page of this Official Statement, payable on August 15 and February 15 of each year, commencing August 15, 2007 (each, an "*Interest Payment Date*"). The Bonds are scheduled to mature on the dates and in the amounts set forth on the inside cover page of this Official Statement.

Extraordinary Redemption

Redemption Upon Early Termination. The Bonds are subject to mandatory redemption prior to maturity in whole, and not in part, on the Early Redemption Date (defined as the date which is the last day of the month which follows the month in which the Early Termination Date occurs) at a Redemption Price equal to the Amortized Value (defined below) thereof as of the Early Redemption Date, plus unpaid accrued interest to the Early Redemption Date.

"*Amortized Value*" means, with respect to any Bond to be redeemed, the principal amount of such Bond multiplied by the price of such Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of delivery of

the Bonds), with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bond and a yield equal to such Bond's original reoffering yield, which, in the case of certain dates, produces the amounts for all of the Bonds set forth in Appendix G hereto. See "APPENDIX G—SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS."

Redemption for Remediation. The Bonds are subject to mandatory redemption prior to maturity in whole or in part, on any Interest Payment Date, at a Redemption Price equal to the Amortized Value thereof, plus unpaid accrued interest to the redemption date, if required under certain circumstances to maintain the tax-exempt status of the Bonds. In general, those circumstances relate to the failure to apply the Gas Supply for a Qualifying Use (as such term is defined in the Prepaid Gas Agreement).

Optional Redemption

The Bonds are subject to redemption at the option of the Issuer in whole on any date or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) on any Interest Payment Date, at a Redemption Price equal to the greater of (a) the Amortized Value thereof, plus accrued and unpaid interest to the date of redemption; or (b) the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (described below) for such Bonds minus 0.25 percent.

The "*Applicable Tax-Exempt Municipal Bond Rate*" is the "Comparable AAA General Obligations" yield curve rate for the stated maturity date as published by Municipal Market Data five Business Days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com. In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.theconsensus.com. In the further event that Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by a major market maker in municipal securities, as the quotation agent, based upon the rate per annum equal to the annual yield to maturity, calculated using semi-annual compounding, of those tax-exempt general obligation bonds rated in the highest Rating Category by Moody's and S&P with a maturity date equal to the stated maturity date of such Bonds.

Mandatory Sinking Fund Redemption

Sinking Fund Redemption. The Bonds maturing February 15, 20__ are subject to redemption prior to their stated maturity in part (by lot) from the Sinking Fund Installments set forth below, at a Redemption Price equal to the principal amount thereof, without premium, on February 15 of each of the following years and in the following amounts:

Year	Principal Amount
	$
*	

* Final Maturity

If at any time Bonds of any maturity for which Sinking Fund Installments have been established are purchased or redeemed or deemed to have been paid pursuant to the Indenture and, with respect to such Bonds which have been deemed paid, irrevocable instructions have been given to the Trustee to redeem or purchase the same on or prior to the due date of the Sinking Fund Installment to be credited, the Issuer may from time to time and at any time by written direction to the Trustee specify the portion, if any, of such Bonds so purchased, redeemed or deemed to have been paid and not previously applied as a credit against any Sinking Fund Installment which are to be credited against future Sinking Fund Installments.

Notice of Redemption

When the Trustee receives notice from the Issuer of the Issuer's decision to optionally redeem Bonds, or when redemption of Bonds by the Trustee is required due to early termination of the Prepaid Gas Agreement or for remediation, each as described above, the Trustee is to give notice, in the name of the Issuer, of the redemption of such Bonds by first-class mail, postage prepaid, not less than 30 days (15 days in the case of any mandatory redemption under the Indenture) and not more than 45 days (30 days in the case of any mandatory redemption under the Indenture) prior to the redemption date to the Owner of each Bond being redeemed, at its address as it appears on the Bond Register or at such address as such Owner may have filed with the Trustee for that purpose, as of the Regular Record Date. The notice will identify the Bonds to be redeemed and state (i) the redemption date, (ii) the Redemption Price or the manner in which it will be calculated, (iii) that the Bonds called for redemption must be surrendered to collect the Redemption Price, (iv) the address at which the Bonds must be surrendered, and (v) that interest on the Bonds called for redemption ceases to accrue on the redemption date. The Trustee is not to give any notice of redemption with respect to a redemption of Bonds at the option of the Issuer, unless upon the giving of such notice, the Trustee holds funds sufficient to pay the Redemption Price of the Bonds to be optionally redeemed.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption. See "Book-Entry Only System" below.

Bonds Redeemed in Part

Upon surrender of a Bond redeemed in part, the Issuer will execute and the Trustee will authenticate and deliver to the Owner thereof a new Bond or Bonds in Authorized Denominations equal in principal amount to the unredeemed portion of the Bond surrendered. Notwithstanding anything in the Indenture to the contrary, so long as the Bonds are held in the Book-Entry System, the Bonds will not be delivered as set forth above; rather, transfers of Beneficial Ownership of such Bonds to the person indicated will be effected on the registration books of the Securities Depository pursuant to its rules and procedures. See "Book-Entry Only System" below.

Selection of Bonds to be Redeemed

If less than all of the Bonds of like maturity are called for redemption, the particular Bonds or portions of Bonds to be redeemed are to be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate, from Bonds not previously called for redemption; provided, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination to be redeemed will be in the principal amount of such minimum Authorized Denomination or a multiple thereof. In selecting Bonds for redemption, the Trustee will treat each Bond of a denomination of more than the minimum Authorized Denomination as representing that number of Bonds of the minimum Authorized Denomination which is obtained by dividing by such minimum Authorized Denomination the principal amount of such Bond.

Registration and Exchange of Bonds; Persons Treated as Owners.

So long as the Bonds are maintained in book-entry form, the beneficial owners thereof will have no right to receive physical possession of the Bonds, and transfers of ownership interests in the Bonds will be made through book entries by The Depository Trust Company and its Participants, as described below under the subcaption "Book-Entry Only System."

The Trustee will maintain registration books for the registration and the registration of transfer of the Bonds. The transfer of any Bond may be registered only upon the books kept for the registration and registration of transfer of Bonds upon surrender thereof to the Trustee together with an assignment duly executed by the registered owner in person or by his duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer the Issuer will execute and the Trustee will authenticate and deliver in exchange for such Bond a new registered Bond or Bonds, registered in the name of the transferee, of any denomination or denominations authorized by this agreement.

The Trustee will not be required to make any such registration or registration of transfer of a Bond during the 15 days immediately preceding an interest payment date. Prior to due presentment for registration of transfer of any Bond, the Trustee will treat the registered owner as the person exclusively entitled to payment of principal and interest and the exercise of all other rights and powers of the owner.

Upon surrender thereof at the principal corporate trust office of the Trustee, together with an assignment duly executed by the registered owner or his duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, Bonds may, at the option of the owner thereof, be exchanged for Bonds of the same maturity, of authorized denominations and bearing interest at the same rate. Every such exchange will be at the expense of the Issuer, except that the Trustee will, if requested by the Issuer, make a charge to any owner of a Bond requesting such registration in the amount of any tax or other governmental charge required to be paid with respect thereto.

Debt Service Requirements

Set forth in the following table are the debt service requirements (excluding capitalized interest funded with bond proceeds) on the Bonds in each year.

Year Ending February 15	Principal Amount	Interest[1]	Total
2009	$	$	$
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			

[1] Net of capitalized interest on the Bonds. See "SOURCES AND USES OF FUNDS."

Book-Entry Only System

Information concerning The Depository Trust Company ("*DTC*") and the book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer, the Underwriter, or the Trustee.

The Bonds will be available only in book-entry form in Authorized Denominations. The Depository Trust Company, New York, New York, will act as the initial securities depository for the Bonds. The Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Bank 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 Exchange Act. 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 instruments from over 100 countries that DTC's Participants (the "*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the

need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (the "*NSCC*," "*FICC*," and "*EMCC*," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. (the "*NYSE*"), 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 (the "*Indirect Participants*" and, together with the Direct Participants, the "*DTC Participants*"). DTC has S&P's highest rating: AAA. The rules applicable to DTC and DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other 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 account 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.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by DTC 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 DTC Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

NEITHER THE ISSUER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANTS OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OR ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

This Section describes the security and sources of payment for the Bonds. The information contained below includes descriptions of certain provisions of the Indenture. Reference is made to Appendix C for a more complete summary of certain provisions of the Indenture. Capitalized terms used in this Section and not otherwise defined in this Official Statement are used with the meanings assigned thereto by the Indenture.

Limited Obligations; Limitations on Liability

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State, the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture).

All payment obligations of the Municipality under the Supply Agreement, including the Municipality's obligation to pay the Contract Price to the Issuer for gas delivered or deemed delivered under the Supply Agreement, are limited obligations payable solely from the Municipality's electric utility system revenues. The Municipality has no obligation to make any payment to the Issuer for gas not delivered or deemed delivered to the Municipality in accordance with the Supply Agreement.

The City's obligation to pay the Contract Price for gas delivered or deemed delivered pursuant to the Supply Agreement will be classified as an operation expense of its electric utility system. Operation expenses, which also include payments for electric generation and transmission service to joint action agencies in which the City's electric utility system participates, are payable prior to outstanding obligations of the City in the principal amount of approximately $270 million payable from net revenues of the electric utility system.

Certain financial and operating data with respect to the Municipality's electric utility system, which may be relevant to an evaluation of the Municipality's ability to meet its payment obligations under the Supply Agreement, is included in Appendix A. The audited financial statements of the City of Roseville, California for the fiscal year ended June 30, 2006 is included as Appendix B. See "FINANCIAL STATEMENTS."

The Trust Estate

As security for payment of the principal of and premium, if any, and interest on the Bonds, the Issuer has pledged and assigned to, and granted a security interest to the Trustee in, the following described property (the "*Trust Estate*"):

(a) the proceeds of the sale of the Bonds (subject to the application of funds for the purposes and on the terms and conditions set forth in the Indenture);

(b) all right, title and interest of the Issuer in, to and under the Prepaid Gas Agreement, the Seller Guarantee, the Supply Agreement, the Funding Agreement and the Funding Guarantee;

(c) the Revenues (defined below);

(d) any Termination Amount,

(e) any amounts paid as a Mandatory Termination Advance; and

(f) all Funds established by the Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof; subject in all cases to the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

"Revenues," as defined in the Indenture, means (i) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Issuer from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Issuer under the Supply Agreement, the Prepaid Gas Agreement, the Seller Guarantee, the Customer Insurance Policy or otherwise payable to it for the sale and/or transportation of gas or otherwise with respect to the Gas Supply (but excluding therefrom: (A) any Termination Amount; (B) any Unearned Amount (defined herein); (C) amounts paid by or on behalf of the Issuer for the mandatory redemption of Bonds for remediation and (D) amounts paid under the Supply Agreement after the termination thereof); (ii) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (iii) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to the Indenture and paid or required to be paid into the Revenue Fund; (iv) any Commodity Swap Receipts received by the Issuer; and (v) any amounts paid under the Funding Agreement or the Funding Guarantee (but excluding therefrom any amounts paid as a Mandatory Termination Advance (as defined in the Funding Agreement)).

Revenues and Flow of Funds

Pursuant to the Indenture, the Issuer has established the following Funds to be held by the Trustee (with the exception only of the Operating Fund, which shall be held by the Issuer):

(i) the Project Fund;

(ii) the Cost of Issuance Fund;

(iii) the Revenue Fund;

(iv) the Debt Service Fund;

(v) the Swap Payment Fund;

(vi) the Rebate Fund;

(vii) the Redemption Fund;

(viii) the Termination Fund; and

(ix) the Operating Fund.

Within the Funds held by the Trustee, the Trustee may create one or more accounts or subaccounts in any Fund as may facilitate the administration of the Indenture.

Project Fund

There will be paid into the Project Fund, from the proceeds of the Bonds, the amount specified in the Indenture (and set forth hereinabove under "SOURCES AND USES OF FUNDS"). Amounts in the Project Fund will be used to make the Prepayment to the Seller in accordance with the Prepaid Gas Agreement.

Cost of Issuance Fund

Money in the Cost of Issuance Fund will be used by the Trustee to pay Costs of Issuance as provided in the Indenture. Upon the receipt by the Trustee of a certificate of Written Request of the Issuer requesting the Trustee to close the Cost of Issuance Fund, the Trustee will transfer any moneys remaining in the Cost of Issuance Fund to the Debt Service Fund.

Revenue Fund

All Revenues are to be deposited promptly by the Trustee upon receipt thereof into the Revenue Fund. In each month during which there is a deposit of Revenues into the Revenue Fund (but in no case later than the respective dates set forth below), the Trustee is to credit to the following Funds in the following order of priority (except as provided in (ii) below, with the full amount to be transferred to any Fund in a month to be transferred to such Fund before any transfer is made to a fund with a lower priority), the amounts set forth below (such transfers to be made in such a manner so as to assure good funds in such Funds on the respective dates set forth below):

(i) To the Debt Service Fund: not later than the 25th of such month, or if such day is not a Business Day, then the next succeeding Business Day, the Scheduled Debt Service Deposit for such month, as set forth in the relevant schedule attached to the Indenture; provided, that if any moneys from the initial draw on the Customer Insurance Policy have been deposited in the Revenue Fund in such month, the Trustee shall transfer to the Debt Service Fund the Scheduled Debt Service Deposit for such month and the next succeeding month;

(ii) If the Issuer has issued obligations to refund Bonds that are payable from the Revenues on a parity with the Bonds, to the debt service fund or funds for such refunding obligations the amounts required to be deposited in such funds pursuant to the proceedings and documents pursuant to which such refunding obligations were issued; provided, that if there are not sufficient moneys in the Revenue Fund to make the full transfers required by this clause (ii) and clause (i) above, such transfers shall be made *pro rata* based on the respective amounts due;

(iii) To the Swap Payment Fund: not later than the 25th of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount, if any, required so that the balance credited to the Swap Payment Fund equals the amount necessary for the payment of the Commodity Swap Payment, if any, coming due in such month;

(iv) To the Rebate Fund: not later than the last day of such month, the amount, if any, required so that the balance credited to the Rebate Fund equals the amount required to be on deposit in the Rebate Fund;

(v) To the Redemption Fund: not later than the 25th of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount specified in a written direction of the Issuer for the optional redemption of Bonds; and

(vi) To the Operating Fund: not later than the last day of such month, the remaining balance in the Revenue Fund after making the foregoing transfers to the Debt Service Fund, the Swap Payment Fund, the Rebate Fund and the Redemption Fund.

The Scheduled Debt Service Deposits shall be adjusted as directed by the Issuer to reflect the optional redemption of Bonds and the redemption of Bonds for remediation purposes.

Debt Service Fund

The amounts credited to the Debt Service Fund from the Revenue Fund will be applied on each Bond Payment Date to the payment of Debt Service payable on such Bond Payment Date. Any amount remaining in the Debt Service Fund after each date for payment of a Principal Installment, other than Bond proceeds or the interest thereon to be to be retained therein for purposes of making future payments, are to be transferred to the Operating Fund.

Swap Payment Fund

Amounts credited to the Swap Payment Fund will be applied from time to time by the Trustee to the payment of the Commodity Swap Payments. Amounts credited to the Swap Payment Fund that the Issuer at any time determines to be in excess of the requirements of such Fund are to be applied to make up any deficiencies in the Debt Service Fund. Any balance of such excess not required to be so applied is to be transferred to the Revenue Fund.

Rebate Fund

The Trustee is to apply amounts in the Rebate Fund to the payment when due of the Rebate Requirements. Within the Rebate Fund, the Trustee will maintain such accounts as directed by the Issuer as necessary in order for the Issuer and the City to comply with the terms and requirements of the Tax Agreement. Subject to the transfer provisions described herein, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America, and none of the Issuer, the City, the Trustee or the Owners has any rights in or claim to such moneys.

Redemption Fund

The Trustee is to deposit all amounts which are not Revenues received from the Issuer for deposit into the Redemption Fund, including amounts deposited in connection with a mandatory redemption of Bonds for remediation and optional transfers from the Operating Fund or any other source of funds. Amounts on deposit in the Redemption Fund are to be applied by the Trustee to the mandatory redemption of outstanding Bonds for remediation and/or for the optional redemption of Bonds as directed in a written direction of the Issuer.

Termination Fund

In the event an Early Termination Date is established for the Prepaid Gas Agreement, the Issuer will direct the Seller to pay the Termination Amount directly to the Trustee for the account of the Issuer. The Trustee will deposit the Termination Amount into the Termination Fund. On the 25th day of the

month in which the Bonds are subject to mandatory redemption, the Trustee is to transfer all moneys in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund to the Termination Fund. The amounts deposited into the Termination Fund are to be applied by the Trustee to the mandatory redemption of all outstanding Bonds on the Early redemption Date pursuant to the Indenture.

To the extent that the balance in the Termination Fund is not sufficient to pay the Redemption Price plus accrued interest on the Bonds to be redeemed on the Early Redemption Date, and such deficiency is a Covered Termination Deficiency, the Trustee is to provide notice to the Seller of a Covered Termination Deficiency under the Funding Agreement and draw the full amount of such deficiency as a Mandatory Termination Advance thereunder. The full amount of the Mandatory Termination Advance is to be deposited in the Termination Fund.

Operating Fund

The Issuer is to apply amounts credited to the Operating Fund to any one or more of the following (as the Issuer determines and without any order of priority):

(i) payment of administrative or other expenses of the Issuer;

(ii) rebates to the City;

(iii) the purchase or redemption of Bonds and expenses in connection therewith; and

(iv) any other lawful purpose of the Issuer.

Any purchase of Bonds (or portions thereof) by or at the direction of the Issuer pursuant to the Indenture may be made with or without tenders of Bonds and at either public or private sale, in such manner as the Issuer may determine.

Payments Under the Customer Insurance Policy

If the Trustee has not received payment from the Municipality of all or any portion of the Contract Price payments due by the second Business Day following the 25th day of any month (beginning on February 25, 2008), or if such day is not a Business Day, the next succeeding Business Day, the Trustee will make a claim under the Customer Insurance Policy for the unpaid portion of such Contract Price payments on such date. The Trustee will deposit any amount received from FSA in the Revenue Fund and apply such amounts as described under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Revenues and Flow of Funds." The Customer Insurance Policy insures only the payments required to be made by the Municipality for the Contract Price of the gas to be delivered to the Municipality under the Supply Agreement, and does not insure any other payments, including but not limited to costs, expenses (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, which may be payable by the Municipality to the Issuer under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Payments Under the Seller Guarantee

If at any time a payment is due to the Issuer by the Seller under the Prepaid Gas Agreement and the Trustee has not received the full amount of such payment, the Trustee will immediately make a demand for payment under the Seller Guarantee for the amount unpaid.

Pursuant to the Prepaid Gas Agreement, the Issuer or the Seller is to provide notice to the Trustee if either party establishes an Early Termination Date (defined herein) for the Prepaid Gas Agreement. In connection with the establishment of an Early Termination Date, the Issuer and the Seller are required by the Prepaid Gas Agreement to prepare and deliver to the Trustee invoices specifying amounts payable in connection with the termination of the Prepaid Gas Agreement. If any of such invoices specifies that amounts are payable by the Seller and the Trustee has not received the full amount of such payment by the end of the second Business Day following the Early Termination Date, the Trustee will make a demand for payment from the Seller Guarantor under the Seller Guarantee for the amount unpaid. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE—The Seller Guarantee."

Payments Under the Funding Agreement

The Funding Agreement provides that in the event of a Covered Termination Deficiency or a Covered Swap Deficiency, the Seller will make a Mandatory Termination Advance or a Mandatory Swap Advance, as applicable, to the Trustee on the day which is one day after the Seller's receipt of notice of the Covered Termination Deficiency or the Covered Swap Deficiency (or if such day is not a Business Day, the next succeeding Business Day). In the event of a Covered General Deficiency under the Funding Agreement, the Seller may at its sole option advance funds to the Issuer in respect of such Covered General Deficiency. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement."

Payments Under the Funding Guarantee

If the Trustee has not received payment from the Seller of an advance due in respect of a Covered Termination Deficiency or a Covered Swap Deficiency, as applicable, the Trustee will immediately demand payment from the Seller Guarantor under the Funding Guarantee for the payment of such amount. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE—The Funding Guarantee."

THE GAS SUPPLY ACQUISITION

General

The purchase of a portion of the Municipality's natural gas requirements from the Issuer for a twenty-year period will enable the Municipality to acquire a fixed supply of that portion of its natural gas requirements at a discount from the Index Price.

Deliveries of the natural gas to be purchased by the Municipality commence on January 1, 2008 and continue through December 31, 2027. The daily quantity of gas (the "*Daily Contract Quantity*") to be purchased by the Municipality during this period will vary from month to month, but not from year to year, and is set forth in Appendix D hereto. The Municipality has projected that the Daily Contract Quantity to be delivered in any month (the "*Monthly Contract Quantity*") will range from 25 percent to 65 percent of its monthly natural gas requirements. On an annual basis, the quantity of gas to be delivered under the Gas Supply Agreement represents 53 percent of the Municipality's projected natural gas requirements. In making this projection, the Municipality has assumed that its natural gas requirements will remain constant over the twenty-year period.

At this time, the City has no contractual commitment to purchase all or any portion of its remaining gas requirements from any particular supplier; however, the City intends to enter into one or more gas purchase agreements in order to secure the remaining portion of its natural gas requirements. The City has covenanted in the Supply Agreement to use all the gas purchased under the Supply

Agreement to satisfy its natural gas requirements prior to the use of gas under any additional contract. The Supply Agreement does not prohibit or restrict the Municipality from entering into other gas supply agreements in the future, including agreements with the Seller, for all or any portion of its natural gas requirements.

The Prepaid Gas Agreement

Set forth below is a summary of certain provisions of the Prepaid Gas Agreement. This summary does not purport to be complete, and reference is made to the entire Prepaid Gas Agreement (including for the definitions of certain capitalized terms used herein), copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

Consideration for Delivery of Prepaid Gas; Security for Performance of Obligations

In consideration of Seller's agreement to deliver the Gas Supply under the Prepaid Gas Agreement, the Issuer (who is referred to in the Prepaid Gas Agreement as the "Purchaser") will pay to the Seller the Prepayment by wire transfer on the Closing Date.

The payment obligations of the Seller arising under or in connection with the Prepaid Gas Agreement are to be guaranteed by the Seller Guarantor pursuant to the Seller Guarantee. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

Non-performance by Seller

If the Seller fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Prepaid Gas Agreement (a "*Seller Delivery Default*"), the Seller is to pay the Issuer an amount calculated in accordance with the terms of the Prepaid Gas Agreement.

Issuer Failure to Receive Gas; Remarketing of Gas by the Seller

The Issuer's failure on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the applicable Delivery Point of the quantity of gas required to be received at such Delivery Point on such day from the Seller, is a "*Purchaser Receipt Failure*" under the Prepaid Gas Agreement. In such event, the Seller is to pay the Issuer an amount calculated in accordance with the terms of the Prepaid Gas Agreement.

Optional Remarketing

So long as the Supply Agreement is in effect and no Anticipatory Tax Event Period has occurred and is continuing and no Tax Event (as such terms are defined in the Prepaid Gas Agreement) has occurred, if requested by the Issuer in writing, the Seller is to remarket that portion of the Gas Supply specified by the Issuer from time to time in each notice ("*Optional Remarket Gas*") as follows:

(a) Monthly Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more months by the Monthly Notice Time, the Seller is to remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Index Price.

(b) Daily Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more days by the Daily Notice Time, the Seller is to remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Spot Price.

Mandatory Remarketing

Anticipatory Remarket Gas. While the Supply Agreement is in effect, if the amount of non-qualifying use is 50 percent or more of the limitation on non-qualifying use, the Municipality will be required to deliver to the Seller a notice specifying the amount of gas the Municipality expects to apply for a Qualifying Use. The Seller is obligated to remarket the gas that is not expected to be used by Municipality for a Qualifying Use at a price specified in the Prepaid Gas Agreement. If the Seller is unable to remarket such gas for a Qualifying Use, the Seller is to purchase such gas at the prices specified for Optional Remarket Gas.

Tax Event Remarket Gas. While the Supply Agreement is in effect, if the amount of non-qualifying use is 90 percent or more of the limitation on non-qualifying use, the Municipality will be required to deliver to the Seller a notice specifying the amount of gas the Municipality expects to apply for a Qualifying Use. The Seller is obligated to remarket the gas that is not expected to be used by the Municipality for a Qualifying Use at the highest possible price, but in any event no less than the Contract Price. If the Seller is unable to remarket such gas for a Qualified Use at a price at least equal to the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, the Seller is to purchase such gas at the prices specified for Optional Remarket Gas.

Termination Remarket Gas. Upon receipt of notice that the Supply Agreement is no longer in effect, the Seller is to use commercially reasonable efforts to remarket all of the gas at the highest possible price, but in any event no less than the Contract Price; except that (a) if the amount of non-qualifying use is 90 percent or more of the limitation on non-qualifying use, the Seller is obligated to remarket all of the gas for a Qualifying Use at the highest possible price, but in any event no less than the Contract Price; and (b) if the Seller cannot remarket the gas for a Qualifying Use at a price at least equal to the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, the Seller is to remarket the gas to itself or a third party at the Contract Price.

Remediation

To maintain the Tax-Exempt Status of the Bonds, and except as permitted by Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2) and as otherwise approved by an opinion of Tax Counsel as preserving the Tax-Exempt Status of the Bonds, the Issuer is obligated to apply, or caused to be applied, the Gas Supply for a Qualifying Use. To the extent certain amounts of gas are not applied for a Qualifying Use, the corresponding price paid for such gas ("*Proceeds Subject to Remediation*") may be applied to a Remediation Use. "*Remediation Use*" means, with respect to Proceeds Subject to Remediation, either: (a) the purchase of gas with such Proceeds Subject to Remediation and the sale of such gas for a Qualifying Use (as evidenced by a Qualifying Use Certificate); (b) the application of such moneys by the Municipality to the purchase of gas, which gas is applied by the Municipality for a Qualifying Use; or (c) the application of Proceeds Subject to Remediation to the purchase of electricity in compliance with Treasury Regulation Section 1.148-1(e)(2)(iii)(B)(2).

Under the Supply Agreement, the Municipality will establish and maintain a Remediation Fund so long as any Bonds are outstanding under the Indenture. The Municipality is to deposit in the Remediation Fund all amounts received with respect to gas remarketed for a Non-Qualifying Use. The

Municipality is to use commercially reasonable efforts to cause all Proceeds Subject to Remediation in the Remediation Fund to be applied for a Remediation Use within twelve months of the date on which such funds were deposited in the Remediation Fund.

In the event that funds have been on deposit in the Remediation Fund for more than twelve months, or the amount of non-qualifying use is 50 percent or more of the limitation on non-qualifying use, the Municipality is to make all Proceeds Subject to Remediation available to the Seller to apply to a Remediation Use within the limitations of the Prepaid Gas Agreement.

In the event that any Proceeds Subject to Remediation remain on deposit in the Remediation Fund for twenty-two (22) months after the applicable Receipt Date, the Municipality is to transfer such Proceeds Subject to Remediation and any other required funds to the Trustee for deposit in the Redemption Fund to be applied to the redemption of Bonds as directed by the Issuer and approved by Tax Counsel as preserving the Tax-Exempt Status of the Bonds. See "TERMS OF THE BONDS—Extraordinary Redemption" herein.

Force Majeure

Except with regard to a party's obligation to make payment(s) due under the Prepaid Gas Agreement, neither party will be liable to the other for failure to perform an obligation under the Prepaid Gas Agreement, to the extent such failure was caused by Force Majeure. During any Delivery Month in which all or a portion of the Monthly Contract Quantity is not delivered or received due to Force Majeure, the Seller is to pay the Issuer, in the manner provided for in the Prepaid Gas Agreement, an amount equal to the product of (i) the quantity of the Monthly Contract Quantity not taken because of the Force Majeure and (ii) the Index Price. Payment of such amount will satisfy Seller's obligation to deliver, and Issuer's obligation to receive, the gas that was not delivered or received due to Force Majeure.

Billing and Payment; Guarantee of Seller's Payments by the Seller Guarantor

On or before the 15th day of each month, from February 2008 to and including the month following the termination of the Prepaid Gas Agreement, the Seller is to prepare and deliver to the Issuer and the Trustee an invoice with respect to amounts accruing during the preceding month. In preparing such invoice, all amounts, charges and adjustments, other than Gas Payments and the proceeds of remarketing, contained in the Seller's statement are to be netted such that a single payment will be made by the party owing the net amount.

Unless a different time of payment is specified for a particular payment, payments are to be made by the party owing the payment on or before the 25th day of the month in which such invoice is delivered ("*Payment Date*"); provided, that if the Payment Date is not a Business Day, payment is due on the next succeeding Business Day. All payments by the Seller are to be made to the Trustee for deposit in the Revenue Fund except as follows: Termination Payments are to be made to the Trustee for deposit in the Termination Fund; Unearned Amounts are to be made to the Issuer for deposit in the Operating Fund; the proceeds of remarketing and net amounts owed by the Seller from remediation sales of gas or electricity by the Seller while the Supply Agreement is in effect are to be paid to the Municipality.

Triggering Events; Termination of the Prepaid Gas Agreement

Automatic Triggering Events. Under the Prepaid Gas Agreement, an automatic Triggering Event is to be deemed to have occurred upon the occurrence of any of the following events: (a) the early termination of any commodity price swap to which the Seller is a party due to the Seller's default or a

termination event under which the Seller is the affected party, or (b) the early termination of the Commodity Swap for any reason other than the Issuer's default.

Triggering Event at the Option of the Issuer. Under the Prepaid Gas Agreement, a Triggering Event is to be deemed to have occurred at the option of the Issuer upon the occurrence of any of the following events:

(a) The Seller, and the Seller Guarantor on the Seller's behalf, fail to pay either: (1) any Gas Payment as invoiced or (2) fail to pay any undisputed amount due under the Prepaid Gas Agreement other than a Gas Payment, on the second Business Day following the applicable Payment Date or, if such Payment Date is not a Business Day, on the next succeeding Business Day.

(b) A Bankruptcy Event occurs with respect to the Seller or the Seller Guarantor.

(c) Any representation or warranty given by the Seller proves to have been false or misleading when made and such misrepresentation or warranty has had or could reasonably be expected to have a material adverse effect on the Seller's ability to perform its obligations to deliver gas or make any payment required under the Prepaid Gas Agreement related to the delivery of gas or the making of payments under the Prepaid Gas Agreement.

(d) For reasons other than Force Majeure or a Purchaser Receipt Failure, the Seller delivers (a) no gas (other than replacement gas deemed delivered by the Seller pursuant to the applicable provisions of the Prepaid Gas Agreement) for a period of five (5) consecutive days for which gas is required to be delivered, or (b) less than fifty percent of the gas required to be delivered on any particular day (not including replacement gas deemed delivered by Seller pursuant to the applicable provisions of the Prepaid Gas Agreement) for ten (10) cumulative days during any contract year during the Term of the Prepaid Gas Agreement.

(e) The occurrence of an Excess Gas Event. An "*Excess Gas Event*" means that subsequent to the issue date of the Bonds and after a Tax Event has occurred, due to events that occurred (or did not occur) or other changes in expectations, the gas to be delivered under the Prepaid Gas Agreement is no longer required for Qualifying Uses as evidenced exclusively by the following: (i) the Issuer or (while the Supply Agreement is in effect) the Municipality is unable to apply the gas then remaining to be delivered under the Prepaid Gas Agreement for a Qualifying Use; and (ii) the Seller does not remarket gas under the Prepaid Gas Agreement for a Qualifying Use at prices at least equal to the applicable prices set forth in the Prepaid Gas Agreement.

Triggering Event at the Option of the Seller. Under the Prepaid Gas Agreement, a Triggering Event is to be deemed to have occurred at the option of the Seller upon the occurrence of any of the following events: (a) the termination of the Commodity Swap due to the Issuer's default, or (b) the termination of the Seller Swap Agreement for reasons other than Seller's default.

Right to Establish Early Termination Date. Upon an Automatic Triggering Event described hereinabove, the Issuer shall, and in the case of a Triggering Event that is deemed to have occurred at the option of the Issuer or the occurrence of any of the Section 17 Events affecting the Issuer, the Issuer may, but is not obligated to, establish a date that is the Early Termination Date and promptly provide notice to the Seller and the Trustee specifying the relevant Triggering Event and the Early Termination Date.

Upon a Triggering Event that is deemed to have occurred at the option of the Seller, as described hereinabove, or the occurrence of any of the Section 17 Events affecting the Seller, the Seller may, but is not obligated to, establish a date that is the Early Termination Date and promptly provide notice to the Issuer and the Trustee specifying the relevant Triggering Event and the Early Termination Date. In any case, the termination date so established is to be referred to as the "*Early Termination Date*," and the Term of the Prepaid Gas Agreement shall cease on the Early Termination Date. An Early Termination Date is to be the last day of a calendar month.

Payments on Early Termination; Redemption of Bonds

Accrued Amounts. Within two Business Days following the Early Termination Date, each party to the Prepaid Gas Agreement will submit to the other and the Trustee an invoice specifying any and all amounts known to be owed to it (and, with respect to payments other than Gas Payments, not disputed pursuant to the Prepaid Gas Agreement) by the other party under the terms of the Prepaid Gas Agreement, whether or not such amounts are otherwise then due and payable, including without limitation (i) invoiced amounts, and (ii) uninvoiced amounts and/or amounts payable for physical deliveries or settlements that occurred prior to the Early Termination Date, and the applicable party is to pay the amount so specified in the manner set forth in the Prepaid Gas Agreement.

Termination Amount and Unearned Amount. In the event an Early Termination Date has been established due to (i) the termination of any commodity swap to which Seller is a party due to the Seller's default or a termination event under which the Seller is the affected party, or (ii) the exercise of the Issuer's option to terminate after the occurrence of a Triggering Event at the Option of the Issuer, or (iii) a notice of termination by the Seller due to any of the Section 17 Events, within two Business Days following the Early Termination Date, the Seller will deposit the Termination Amount with the Trustee for deposit in the Termination Fund and the present value of the discount the Issuer would have received but for the early termination of the Prepaid Gas Agreement (the "*Unearned Amount*") with the Issuer for deposit in the Operating Fund.

Remarketing Proceeds and Termination Amount. In the event an Early Termination Date has been established due to (i) the termination of the Commodity Swap for reasons other than the Issuer's default, or (ii) the exercise of the Seller's option to terminate after the occurrence of a Triggering Event at the Option of the Seller, or (iii) a notice of termination by the Issuer due to any of the Section 17 Events, within two Business Days following the Early Termination Date, the Seller is to deliver to the Issuer, and the Issuer is to take delivery of, an amount of gas with a value equal to the Termination Amount at such Delivery Point or Delivery Points as shall be designated by the Seller. The Seller is then to immediately remarket such gas on behalf of the Issuer. The Seller is not to be obligated to acquire, deliver and remarket such gas if the Seller determines, in its sole judgment, that such acquisition, delivery and/or remarketing would adversely affect the market price for gas at any Delivery Point or Delivery Points for such gas. In all events, within two Business Days following the Early Termination Date, the Seller will deposit with the Trustee the amount, if any, received from the remarketing of gas pursuant to such provision of the Prepaid Gas Agreement plus the positive difference, if any, obtained by deducting such amount from the Termination Amount.

The Supply Agreement

Set forth below is a summary of certain provisions of the Supply Agreement. This summary does not purport to be complete, and reference is made to the entire Supply Agreement (including for the definitions of certain capitalized terms used herein), copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

The Supply Agreement shall be effective commencing on the date of its execution and continue in effect until December 31, 2027, unless terminated earlier due to certain defaults, as set forth therein, or the termination of the Prepaid Gas Agreement.

Delivery and Receipt Obligations; Payment by the Municipality

Beginning January 1, 2008, and on each day thereafter during the remaining Term of the Supply Agreement, the Issuer is to deliver, or cause to be delivered, and Municipality is to receive the Daily Contract Quantity pursuant to the terms of the Supply Agreement.

Consideration

The Municipality is to pay the Contract Price for all gas delivered or deemed delivered by the Seller. The Municipality is to pay the Contract Price payments irrespective of any dispute or claim of Force Majeure disputed by the Issuer.

Issuer Delivery Default

If the Issuer fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Prepaid Gas Agreement (an "*Issuer Delivery Default*"), the Municipality will have no obligation to pay for any of the Gas Supply that was not delivered as a result of such Issuer Delivery Default.

Municipality Receipt Failure

The Municipality's failure on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the Delivery Point of the quantity of gas required to be received at such Delivery Point is a "*Municipality Receipt Failure*" under the Supply Agreement. The Municipality will be liable for the Contract Price for all gas as to which there is a Municipality Receipt Failure. Pursuant to the Prepaid Gas Agreement, upon the failure of the Issuer to meet its obligation to receive any gas to be delivered thereunder for any reason other than Force Majeure, the Seller is obligated to make certain payments to the Issuer. The Issuer will agree in the Supply Agreement to credit against the Contract Price payments due from the Municipality in any month the amount paid by the Seller in such month with respect to an Issuer Receipt Failure.

Billing

The payment of the monthly net amount payable by the Municipality for gas delivered or deemed delivered under the Supply Agreement is to be made by the Municipality on the 25th day of the next succeeding month; provided, that if such payment date is not a Business Day, payment is due on the next succeeding Business Day. Except as otherwise provided in the Supply Agreement with respect to payments due to the Seller from the Remediation Fund, all payments by the Municipality are to be made to the Revenue Fund.

Security for Performance of Obligations

The obligation of the Municipality to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed under the Customer Insurance Policy. The Customer Insurance Policy insures only the Contract Price payments required to be made by the Municipality and does not insure any other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations

with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Source of Municipality's Payments

The Municipality will agree in the Supply Agreement to make the payments it is required to make thereunder from the revenues of its electric system, and only from such revenues, and as a charge against such revenues, as an operating expense of its electric system and as a cost of fuel for its electric generating units; provided, that the Municipality, in its discretion, may apply any legally available monies to the payment of amounts due under the Supply Agreement. The Municipality will covenant and agree in the Supply Agreement that it will establish, maintain, and collect rates and charges for its electric system so as to provide revenues sufficient, together with all available electric system revenues, to enable the Municipality to pay to the Issuer all amounts payable under the Supply Agreement and to pay all other amounts payable from the revenues of the Municipality's electric utility system, and to maintain any required reserves.

Termination of Supply Agreement

Notwithstanding anything in the Supply Agreement to the contrary, the Supply Agreement will automatically terminate, without the necessity of any action by, or notice to, either party upon the termination of the Prepaid Gas Agreement or upon the failure of the Municipality to make a Contract Price payment within two Business Days of the date such payment is due.

Covenants of the Parties Regarding Federal Tax Issues

Notwithstanding anything in the Supply Agreement to the contrary, the parties thereto agree to comply with any certifications made to, or procedures required by, Tax Counsel to protect the Tax-Exempt Status of the Bonds regarding the sale, delivery, purchase or receipt of gas pursuant to the terms of the Supply Agreement, the application of any Proceeds Subject to Remediation or any other proceeds in connection with the gas, and any other matters affecting the Tax-Exempt Status of the Bonds.

Special Obligations of Issuer

Notwithstanding anything to the contrary contained in the Supply Agreement: (i) the obligation of the Issuer to deliver gas under the Supply Agreement is limited to the delivery of gas which the Issuer receives under the Prepaid Gas Agreement; (ii) the obligation of the Issuer to pay any amount under the Supply Agreement or to give credits against amounts due from the Municipality under the Supply Agreement is limited to amounts the Issuer receives under the Prepaid Gas Agreement or otherwise available to the Issuer in connection with the transaction for which such payment or credit relates; (iii) any imbalance, transportation, tax, or indemnification charges for which the Issuer is responsible under the Prepaid Gas Agreement are to be considered imbalance, transportation, tax, indemnification charges incurred by the Issuer under the Supply Agreement; and (iv) any event of Force Majeure affecting the delivery of gas by the Seller under the Prepaid Gas Agreement will be considered an event of Force Majeure affecting the Issuer with respect to the delivery of gas under the Supply Agreement.

The Commodity Price Hedge

The Commodity Swap

The variable price received by the Issuer for gas sold to the City will be hedged by the Commodity Swap under terms that are expected to enable the Issuer to receive a revenue stream with respect to the sale of such gas that is substantially fixed for the life of the Prepaid Gas Agreement.

The monthly floating and fixed payments that are to be made by the Issuer and the Swap Counterparty under the Commodity Swap will be netted pursuant to the terms of the Commodity Swap. Net payments required to be made by the Swap Counterparty under the Commodity Swap (*i.e.*, "Commodity Swap Receipts") are Revenues of the Issuer and are required to be deposited to the Revenue Fund created by the Indenture. Pursuant to the Indenture, net payments required to be made by the Issuer under the Commodity Swap (*i.e.*, "Commodity Swap Payments") are payable from Revenues immediately subsequent to the application of such Revenues to the required deposits to the Debt Service Fund. See "TERMS OF THE BONDS—Revenues and Flow of Funds."

The Indenture requires that the Swap Counterparty be rated at least A1/A+/A+ by Moody's, S&P and Fitch, respectively. In the event that the Swap Counterparty is assigned one rating that is below Aa3/AA-/AA- by Moody's, S&P or Fitch, respectively, the terms of the Commodity Swap require the Swap Counterparty to post collateral in the amount of the fixed swap rate times the monthly volume of gas that is the subject of the Commodity Swap for the most recent, current and next month. Such collateral will cover the maximum exposure to a default by the Swap Counterparty for a period of three consecutive months.

Pursuant to the terms of the Commodity Swap, a default by the Swap Counterparty or a termination event under which the Swap Counterparty id the affected party will result in (a) an assignment of the Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days, or if such assignment is not achieved in the specified time, (b) a termination of the Commodity Swap and the automatic termination of the Prepaid Gas Agreement.

Should the Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Seller are obligated to use their best efforts to assign the Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made, the Commodity Swap will terminate and an automatic termination of the Prepaid Gas Agreement will occur.

The Seller Swap Agreement

Concurrently with the Issuer's execution and delivery of the Commodity Swap, the Seller will enter into the Seller Swap Agreement with terms representing an offsetting match of the related commodity hedge transaction entered into between the Issuer and the Swap Counterparty.

Information Regarding the Swap Counterparty

Set forth below is certain publicly available information with respect to the Swap Counterparty. The Swap Counterparty has not guaranteed, nor is it responsible for payment of, the Bonds.

The Swap Counterparty, JPMorgan Chase Bank, National Association (referred to in this subsection as the "Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is

chartered, and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2006, the Bank had total assets of $1,173.7 billion, total net loans of $401.9 billion, total deposits of $613.3 billion, and total stockholder's equity of $92.0 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income as at September 30, 2006, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2005, of JPMorgan Chase & Co., the 2005 Annual Report of JPMorgan Chase & Co., as amended, and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information above regarding the Swap Counterparty relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this subsection of the Official Statement is correct as of any time subsequent to its date.

The Funding Agreement

Set forth below is a summary of certain provisions of the Funding Agreement. This summary does not purport to be complete, and reference is made to the entire Funding Agreement, copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

The Funding Agreement provides that the Seller is obligated to make advances to the Issuer to cure Covered Termination Deficiencies and Covered Swap Deficiencies.

In the event a Covered Termination Deficiency exists, the Trustee is to provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Termination Advance to the Trustee, not later than the day which is one day after the Seller's receipt of such notice (or if such day is not a Business Day, the next succeeding Business Day). The amount of such Mandatory Termination Advance is to be the amount necessary so that the amount on deposit in the Termination Fund on the Early Redemption Date will be sufficient to pay the Redemption Price and accrued interest to such Early Redemption Date of the then outstanding Bonds and any termination payment that may be due to the Forward Purchase Agreement Provider. See "TERMS OF THE BONDS—Revenues and Flow of Funds—Termination Fund."

In the event a Covered Swap Deficiency exists, the Trustee is to provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Swap Advance to the Trustee, not later than the day which is one day after the Seller's receipt of such notice (or if such day is not a Business Day, the next succeeding Business Day). The amount of such Mandatory Swap Advance is the amount of the regularly scheduled swap payment that would have been made by the Swap Counterparty under the Commodity Swap had a termination event with respect to the Swap Counterparty or an event of default with respect to the Issuer not occurred.

The Funding Agreement also provides the Seller with the right to make one or more Optional Advances to cure any Covered General Deficiency. As provided in the Indenture, the Trustee is to give notice to the Seller within two Business Days upon becoming aware that a Covered General Deficiency exists and specifying the amount necessary to cure such Covered General Deficiency. Upon receipt of such notice the Seller may, in its sole discretion, but is not obligated to, make an Optional Advance. The

Seller is to notify the Trustee and the Issuer of its decision whether or not to make an Optional Advance on the Business Day next following the day of receipt of such notice from the Trustee. If the Seller agrees to make an Optional Advance, the Seller will make such Optional Advance to the Trustee, on the second Business Day next following the day of receipt of such notice from the Trustee. The amount of each Optional Advance is to be the amount necessary to cure the Covered General Deficiency.

Amounts advanced pursuant to the Funding Agreement are to be deposited in accordance with the provisions of the Indenture relating to such advances. See "TERMS OF THE BONDS—Revenues and Flow of Funds." The term of the Funding Agreement is the same as that of the Indenture. The Seller's payment obligations under the Funding Agreement will be guaranteed pursuant to the Funding Guarantee. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

THE ISSUER

Relationship to the City

The Issuer is a joint exercise of powers agency and public entity of the State created by the City and the City of Roseville Redevelopment Authority on December 6, 2006 for the purpose, *inter alia*, of acquiring, financing, and supplying natural gas for the City. The City is governed by a five-member council, each member of which serves on the Board of Directors of the Issuer and the Board of Directors of the Redevelopment Authority. Currently, the officers of the Issuer are employees of the City.

Board Members and Officers of the Issuer

The names of the officers and members of the Board of Directors of the Issuer are set forth in the following table:

NAME	POSITION	OCCUPATION	DIRECTOR TERM EXPIRES
Jim Gray	Mayor/Chair	Retired	2010
Gina Garbolino	Mayor Pro Tem/Vice Chair	Bank Vice-President	2010
Richard Roccucci	City Council Member/Board Member	Electrical Engineer/Consultant	2008
Carol Garcia	City Council Member/Board Member	Business Owner	2008
John Allard	City Council Member/Board Member	Bank Vice-President	2008
Craig Robinson	Executive Director	City Manager, City of Roseville	N/A
Sonia Orozco	Secretary	City Clerk, City of Roseville	N/A
Russ Branson	Treasurer	Administrative Services Director, City of Roseville	N/A

The directors and officers of the Issuer serve without compensation (except reimbursement of expenses), and no part of the Issuer's net earnings, income or assets may inure to the benefit of any private entity or person.

The Issuer's Limited Liability

The Issuer will enter into the Supply Agreement with the Municipality solely to facilitate the financing of the purchase of the Gas Supply. Under the Indenture, the Issuer assigns its rights and interests under the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Funding Agreement, the Seller Guarantee and the Funding Guarantee to the Trustee for the benefit of the owners of the Bonds. The owners of the Bonds will have no right to look to the Issuer, or any of its non-pledged assets, for any payment due on the Bonds. Furthermore, none of the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Funding Agreement, the Seller Guarantee, the Funding Guarantee and the Indenture creates a pecuniary liability on the part of any directors or officers of the Issuer.

As of the date of this Official Statement, the transaction represented by the Bonds, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement and the Commodity Swap represent the only significant business of the Issuer.

Restriction on Additional Obligations

The Issuer currently has no substantial assets or revenues other than those that are pledged to the payment of the Bonds. The Issuer has covenanted in the Indenture that it will not issue any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other of its assets. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate or any other its assets, other than the lien and charge created by the Indenture to secure the Bonds, and the lien and charge securing such refunding obligations and the Commodity Swap.

THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE

The Seller and Seller Guarantor

Set forth below is certain publicly available information with respect to the Seller and the Seller Guarantor. The obligations of the Seller are limited to those set forth in the Prepaid Gas Agreement and the Funding Agreement, and the obligations of Seller Guarantor are limited to those set forth in the Seller Guarantee and the Advance Guarantee. Neither the Seller nor Seller Guarantor has guaranteed, nor is either responsible for the payment of, the Bonds.

The Seller, Merrill Lynch Commodities, Inc., is an indirect subsidiary of the Seller Guarantor, Merrill Lynch & Co., Inc. The payment obligations of the Seller under the Prepaid Gas Agreement and certain obligations of the Seller under the Funding Agreement are guaranteed by the Seller Guarantor. The Seller Guarantor is a diversified financial services holding company, which is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "*SEC*"). For further information concerning the Seller and the Seller Guarantor, see the consolidated financial statements of the Seller Guarantor and its subsidiaries included in the Annual Report on Form 10-K of the Merrill Lynch & Co., Inc. for the fiscal year ended December 30, 2005, subsequently filed quarterly reports, and any other documents which are publicly available, including any financial statements of the Seller Guarantor and its subsidiaries, that are included therein or attached as exhibits thereto, filed by Merrill Lynch & Co., Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the most recent Annual Report on Form 10-K, and prior to the termination of the

offering of the Bonds. Merrill Lynch & Co., Inc. files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-07182. Copies of Merrill Lynch & Co., Inc.'s SEC filings (including Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2005 and subsequently filed quarterly reports) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; and (ii) at the SEC's public reference room in Washington D.C.

The Seller Guarantee

Pursuant to the Seller Guarantee, the Seller Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any and all amounts payable by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Seller Guarantor. The Seller Guarantor, pursuant to the Seller Guarantee, covenants that the Seller Guarantee will not be discharged except by complete payment of the amounts payable under the Prepaid Gas Agreement.

The Funding Guarantee

Pursuant to the Funding Guarantee, the Seller Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any advance to be made pursuant to the Funding Agreement to the Issuer by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Seller Guarantor. The Seller Guarantor, pursuant to the Funding Guarantee, covenants that the Funding Guarantee will not be discharged except by complete payment of the amounts payable under the Funding Agreement.

THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.

Description of Customer Insurance Policy

The obligations of the Municipality to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed by FSA pursuant to the Customer Insurance Policy issued by FSA in favor of the Issuer and the Trustee, as assignee of the Issuer.

Customer Insurance Policy Limit

The aggregate amount payable by FSA pursuant to the Customer Insurance Policy is subject to a policy limitation contained in the Customer Insurance Policy, which maximum insured amount is $29,760,000. In general, the policy will cover the Municipality's obligations to pay for two consecutive months of gas with the maximum monthly volumes up to a Contract Price of $40.00/MMBtu. The Customer Insurance Policy insures only the payments required to be made by the Municipality for the Contract Price of the gas to be delivered to the Municipality under the Supply Agreement, and does not insure any other payments, including but not limited to costs, expenses (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, that may be payable by the Municipality to the Issuer under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. The Customer Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Description of FSA

The following information has been supplied by FSA for inclusion in this Preliminary Official Statement. No representation is made by Issuer as to the accuracy or completeness of the information.

FSA accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding FSA and its affiliates set forth under this heading. In addition, FSA makes no representation regarding the Bonds, the tax-exempt status thereof, or the advisability of investing in the Bonds.

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

At September 30, 2006, FSA's combined policyholders' surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, FSA's consolidated shareholder's equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of FSA included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of FSA included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Customer Insurance Policy insures only the payments required to be made by the Municipality for the gas delivered pursuant to the Supply Agreement and does not insure other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. The Customer Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the Bonds or the advisability of investing in the Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

ABSENCE OF BOND LITIGATION

There is no litigation of any nature pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof or any proceedings of the Municipality in connection therewith. The

Underwriter will receive certifications from representatives of the Issuer and the Municipality at the closing of the sale of the Bonds to the effect that no such litigation is pending or, to their knowledge, threatened or anticipated.

APPROVAL OF LEGAL MATTERS

Legal matters incidental to the authorization and issuance of the Bonds are subject to receipt of the opinion of Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, in substantially the form set forth in Appendix E to this Official Statement, which will be delivered with the Bonds. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, San Francisco, California, and for the Issuer and the City by the City Attorney of the City.

TAX MATTERS

In the opinion of Orrick Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "*Code*"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of a Premium Bond should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Issuer and the Municipality have made certain representations and covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained in or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect an Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Owner or the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer or the Municipality, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer and the Municipality have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Municipality or the Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and the Municipality and their appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of Bonds is difficult, obtaining an independent review of IRS positions with which the Issuer or the Municipality legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Issuer, the Municipality or the Owners to incur significant expense.

CONTINUING DISCLOSURE

The Municipality, for and on behalf of itself and the Issuer, has covenanted in a Continuing Disclosure Certificate (the "*Undertaking*") for the benefit of the Beneficial Owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "*Rule*") adopted by the SEC under the Exchange Act. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and the other terms of the Undertaking, including termination, amendment and remedies, are set forth in the Undertaking, the form of which is attached to this Official Statement as Appendix F. Pursuant to the Supply Agreement, the Municipality has agreed to provide to the Issuer, upon its request, annual operating and financial information relating to its electric utility system as required by the Rule to the extent the Rule is applicable to issuance of the Bonds. Failure by the Municipality to comply with its undertaking is not a default under the Supply Agreement, but any such failure entitles the Issuer and the owner or owners of any of the Bonds to take such actions and to initiate such proceedings as shall be necessary and appropriate to cause the Municipality to comply with its undertaking as set forth in the Supply Agreement, including the remedies of mandamus and specific performance.

The Municipality is obligated under undertakings pursuant to the Rule with respect to certain of its outstanding indebtedness. Such undertakings generally require the filing of annual report within seven months after the end of each fiscal year, or January 31 of each year based on the City's current fiscal year ending on June 30. There has been one instance in the previous five years, for the fiscal year ending June 30, 2003, in which the Municipality has failed to file the annual report under its continuing disclosure undertaking within the required time period. The report was due on January 31, 2004 and was filed on February 19, 2004. In addition, the Municipality did not timely file a notice of the failure to file the January 31, 2004 annual report as required by previous undertakings.

The Municipality has now filed all annual reports required to be filed as of the date of this Official Statement. The Municipality has agreed to put procedures in place to ensure that in the future, the obligations of the Municipality under its continuing disclosure undertakings will be satisfied in a timely manner.

A failure by the Municipality to comply with the Undertaking will not constitute an event of default under the Indenture, and Beneficial Owners of the Bonds are limited to the remedies described in the Undertaking. A failure by the Municipality to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

FINANCIAL STATEMENTS

No financial statements for the Issuer are included herein. The financial statements of the City of Roseville, California for the year ended June 30, 2006 attached hereto as Appendix B have been audited by Maze & Associates, A Professional Corporation, Pleasant Hill, California, for the period indicated in their report thereon included in Appendix B.

FINANCIAL ADVISOR

McDonald Partners, Inc. (the "Financial Advisor") has assisted the Issuer with various matters relating to the planning, structuring and delivery of the Bonds. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or

any other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "*Underwriter*") has agreed, subject to certain conditions, to purchase the Bonds from the Issuer at an aggregate underwriting discount of $_____ from the initial public offering prices set forth on the inside cover page hereof. The obligation of the Underwriter to purchase the Bonds is subject to certain terms and conditions set forth in the purchase contract entered into between the Underwriter and the Issuer. Specifically, the Underwriter is obligated to purchase all the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the initial offering prices, and such initial offering prices may be changed from time to time by the Underwriter.

CERTAIN RELATIONSHIPS

The Seller, Merrill Lynch Commodities, Inc., is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Underwriter, Merrill Lynch, Pierce, Fenner & Smith Incorporated, is also a wholly-owned subsidiary of Merrill Lynch & Co., Inc. The financial obligations of the Seller are guaranteed by Merrill Lynch & Co., Inc., to the extent set forth in the Seller Guarantee and the Funding Guarantee. Neither the Seller nor Merrill Lynch & Co., Inc. has guaranteed or is responsible for the payment of the Bonds. The obligations of the Seller and, by virtue of the Seller Guarantee, Merrill Lynch & Co., Inc., are limited to those set forth in the Prepaid Gas Agreement. Neither Merrill Lynch & Co., Inc. nor the Seller takes any responsibility for the information set forth herein other than the information set forth under the caption "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

As described under the caption "THE ISSUER—Relationship with the City," the Issuer is a joint action agency, whose members include the City and the City of Roseville Redevelopment Agency and whose Board of Directors is the same as the City Council of the City and the Board of Directors of the City of Roseville Redevelopment Agency. The officers of the Issuer are employees of the City.

The City Attorney for the City is an employee of the City. The City Attorney is representing both the Issuer and the City in connection with the issuance of the Bonds and the transactions represented by the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement and the Commodity Swap.

RATINGS

The Bonds have been assigned the ratings set forth on the cover page of this Official Statement. Each of these ratings reflects only the view of the rating agency assigning it; any explanation of the significance of the rating should be obtained from the rating agency itself. The Issuer and the Municipality furnished to the rating agencies certain materials and information relating to the Bonds, themselves, FSA, the Seller and Seller Guarantor. Generally, rating agencies base their ratings on such materials and information and on their own investigations, studies and assumptions. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any downward change in or withdrawal of a rating could have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The summaries and explanations of provisions of law and documents in this Official Statement, including the information in the appendices, do not purport to be complete, and are qualified by this reference to such provisions, including the provisions in the Indenture and the other documents discussed above under the caption "INTRODUCTION," where information is provided regarding how to obtain copies of such documents for a full and complete statement of their terms.

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

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____

Title: _____

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APPENDIX A — INFORMATION RELATING TO THE CITY OF ROSEVILLE AND THE ELECTRIC SYSTEM

THE CITY OF ROSEVILLE

Financial and economic data for the City of Roseville are presented in this Appendix for information purposes only. The Bonds are not a debt or obligation of the City, but are a limited obligation secured solely by the funds held under the Indenture.

The City of Roseville is located in Placer County, in California's Sacramento Valley near the foothills of the Sierra Nevada mountain range, about 16 miles northeast of Sacramento and 110 miles east of San Francisco. The City, with a population estimated to be approximately 105,000 at January 1, 2007, is the largest city in Placer County, as well as the residential and industrial center of the County.

There is a wide variety of land uses within the City. Most of the City's residential neighborhoods are located west of Interstate Highway 80; industrial facilities, including Hewlett-Packard, NEC Electronics, Inc. and SureWest Communications are concentrated in the north Roseville area.

Municipal Government

The City was incorporated on April 10, 1909 and is a charter city. The City operates under the council-manager form of government, with a five-member City Council elected at large for staggered four-year terms. At each election, the council member receiving the most votes is appointed mayor pro-tempore for two years and becomes mayor for the final two years.

City services include, among others, police and fire protection, library services, street maintenance, and parks and recreation. The City also owns two golf courses and provides its own electricity, water, sewer and refuse services to its citizens.

Population

Between 2001 and 2005, the City's population increased 25.5 percent, compared to a 21 percent increase for the County and 6.8 percent for the State for the same period. The City's growth in population is shown below.

City of Roseville
Population
2001 through 2005

Year	City of Roseville	Placer County	State of California
2001	82,200	254,900	34,385,000
2002	85,800	265,700	35,000,000
2003	93,300	283,500	35,612,000
2004	96,900	296,579	36,271,091
2005	103,185	308,431	36,728,196

Source: California State Department of Finance.

Major Employers

The following table sets forth the largest employers in the City as of June 30, 2006:

CITY OF ROSEVILLE
Major Employers
June 30, 2006

Employer Name	No. of Employees
Hewlett-Packard	3,857
Kaiser Permanente	3,062
Sutter Roseville Medical Center	1,922
Union Pacific Railroad	1,328
City of Roseville	1,233
Roseville Joint Union High School District	975
Roseville Elementary School District	840
NEC Electronics	800
PRIDE Industries	800
Wal-Mart	690

Source: City of Roseville Economic and Community Services Department.

THE ELECTRIC SYSTEM

History and Background

The City, through Roseville Electric, has been providing electrical power to its residents, businesses, and the City's street lighting system since 1912.

To provide a reliable supply of electric energy to its customers, the City participates in several resources developed by Northern California Power Agency (the "NCPA"), a consortium of municipal electrical utilities, and also purchases electric capacity from federal hydroelectric projects under a long term contract.

The remainder of the City's source of power supply is currently obtained through purchases on the open electricity market. See "Sources of Power Supply." The City is currently constructing a 160 MW natural gas fired generation plant ("Roseville Energy Park") that is expected to commence commercial operation in the summer of 2007.

See "THE ELECTRIC SYSTEM- Sources of Power Supply" below.

Organization and Management

Supervision by City Council and Roseville Public Utilities Commission. The City's Electric System is under the supervision of the City Council. The five-member Roseville Public Utilities Commission serves as an advisory board to the City Council on matters relating to all utilities owned and operated by the City. The City Council appoints all five members of the Public Utilities Commission. The Electric Utility Director manages the Electric System and reports to the Public Utilities Commission and the City Manager.

Senior Management. The Electric System's senior management consists of the following executives:

Tom Habashi, Electric Utility Director. Tom Habashi has served as Electric Utility Director since 1998. Mr. Habashi is a registered electrical engineer with a Bachelor of Science in Electrical Engineering and a Masters in Business Administration. He began his career as a junior engineering aide with the City of Burbank in 1981 and was promoted to assistant electrical engineer later that year. Mr. Habashi joined the Palo Alto Utilities Department as a Power Engineer in 1984 and was promoted to Senior Power Engineer in 1986, Senior Resource Planner in 1987, Manager of Resource Planning in 1992 and Assistant Director of Utilities, Resource Management in 1995.

David Brown, Assistant Electric Utility Director-Distribution. David Brown has served as Assistant Electric Utility Director-Distribution since June 2001. He began working for Roseville Electric in 1987 after graduating from California State University, Sacramento with a Bachelor of Science degree in Electrical Engineering. He is responsible for the distribution operations of the Electric System which include operating and maintaining the City's electric distribution system, preparing budgets, managing 70 employees, and planning system improvement projects and overseeing their design and construction. Mr. Brown is a registered electrical engineer in the State of California.

Tom Green, Assistant Electric Utility Director—Power Supply. Tom Green served as Power Supply Manager for Roseville Electric from April 2001 until assuming his current position in March 2005. Mr. Green is responsible for managing the City's electric supply portfolio including power market assessment, risk management, power plant generation, power purchases and sales, settlements, transmission, and administration. He is also responsible for the management of contractual relations with the Western Area Power Administration of the federal government (hereinafter, "Western"), NCPA and the California Independent System Operator ("ISO"). Prior to joining the City, Mr. Green was employed 13 years by NCPA where he led marketing and contractual activities related to bulk electric power services provided to NCPA members. Previously, he was employed for 11 years by the State of California, Department of Water Resources in the Department's Energy Division. Mr. Green graduated from California State University, Sacramento with a Bachelor of Arts Degree in Government.

Michelle Bertolino, Assistant Electric Utility Director, Administrative and Retail Services. Michelle Bertolino has worked at Roseville Electric since 2002. She is responsible for management of administrative and retail energy services which include financial analysis and forecasting, energy and load research and forecasting, ratemaking, budget development, demand side management, development of public benefits activities, energy efficiency programs and customer service activities including key and major account representation. Prior to joining the City, Ms. Bertolino was employed by the Sacramento Municipal Utility District and San Francisco Public Utilities Commission. She graduated from the University of California, Santa Barbara and attended the Graduate School of Management at the University of California, Davis. She received her Certified Public Accountant license from the State of California.

Employees

As of June 30, 2006, approximately 127 City employees were assigned specifically to the Electric System. Certain functions supporting the Electric System operations, including meter reading, customer billing, collections and accounting, are performed by the Finance Department of the City.

Most of the non-management City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers. The current Memorandum of Understanding with the International Brotherhood of Electrical Workers expired on December 31, 2006. There have been no strikes or other work stoppages at the City, including the Electric System. A new four-year tentative agreement has been reached, subject to ratification by the International Brotherhood of Electrical Workers and the City Council of the City.

Retirement benefits to City employees, including those employees assigned to the Electric System, are provided through the City's participation in the Public Employees Retirement System (CALPERS) of California. As of June 30, 2006, the City had an unfunded pension liability of approximately $55.6 million (indicating the prior year's unfunded amount) including approximately $41 million in the miscellaneous category. The allocation of such liability to the electric department varies from year to year; for fiscal year 2005-2006 approximately 17 percent of the miscellaneous category was allocable to the Electric System.

Service Area, Customer Base and Demand

Service Area. The Electric System serves an area of approximately 36 square miles, coterminous with the City's borders. During fiscal year 2005-2006, it served 48,524 customers, as further described in Table 1 below. See "THE CITY OF ROSEVILLE" above for background and demographic information about the City.

Demand. As shown in Table 1 below, electricity use increased 2.5 percent during fiscal year 2004-2005 and 5.9 percent during fiscal year 2005-2006. The City attributes this growth to the vibrant economy in Roseville as well as market factors affecting electric consumption practice for the residential and small commercial market segments.

Customer Base. Since 2002 the Electric System's customer base has increased by 18 percent, or an average of nearly four percent per year. This growth rate has been a result of expansion in all sectors of the economy, and the strong residential growth trend which added over 6,600 residential units during that time frame.

The City has experienced significant commercial growth in the last four years including retail shopping areas, hotels and office space that have contributed to the City's economy.

Projected Growth in Customer Base. By the end of fiscal year 2006-2007, electricity use in the City is expected to increase by more than four percent compared to fiscal year 2005-2006 levels. See "THE ELECTRIC SYSTEM—Sources of Power Supply—Future Power Supply Resources" and "ELECTRIC SYSTEM FINANCIAL INFORMATION—Projected Operating Results."

The City attributes this projected increase to growth in most sectors of the local economy. Over the next five years growth is expected to continue. Retail, commercial, medical facilities and hotels are planned or under construction. Residential development also is expected to continue throughout the City, with over 7,000 new residences anticipated over the next five years. Future development is expected to include (a) areas west of the City limits annexed to the City and to be developed in accordance with the West Roseville Specific Plan, which includes approximately 3,300 acres and is approved for approximately 7,000 proposed residential units, (b) approximately 6,000 residential units at various infill locations within the City limits, and (c) a proposed annexation known as the MOU Remainder Area, which may bring over 2,000 dwelling units over the next five years and an additional 5,000 thereafter, as well as over 100 acres of commercial development.

The City is expecting several existing electricity customers to experience significant growth over the next few years. Kaiser Hospital and Sutter Hospital are increasing their operations significantly with the addition of medical office buildings, beds, an emergency room and a new surgery and intensive care unit addition. The bulk of the new load is expected by 2008. In addition, the Westfield Galleria Mall in Roseville is planned for expansion. The County of Placer is replacing its small justice facilities in the City with a regional Justice Center, including law enforcement offices, detention facilities, and courthouse. The Justice Center is currently projected to phase in from 2007 through 2009.

The City anticipates that the effect of the annexation and expected growth on the Revenues of the Electric System will be offset by increases in operating expenses in order to meet the increased electricity demand. The effect of these annexations has been incorporated into the projected operating results of the Electric System. See "CAPITAL PLAN" and "ELECTRIC SYSTEM FINANCIAL INFORMATION Projected Operating Results."

Historical Customers, Sales and Peak Demand. The average number of customers, electricity sales measured in kilowatt-hours ("kWh") and in revenues, and peak demand during the past five fiscal years, are listed below. The decline in peak demand for fiscal year 2004-2005 was primarily due to lower than expected temperatures.

Table 1
Customers, Sales and Peak Demand Fiscal Years Ended June 30

	2002	-2003	% Change	2004	% Change	2005	% Change	2006	% Change
Number of Customers									
Residential	36,373	38,054	4.62%	40,312	5.93%	41,883	3.90%	43,001	2.67%
Commercial	4,506	4,720	4.75%	5,101	8.07%	5,410	6.06%	5,523	2.08%
Total	40,879	42,774	4.64%	45,412	6.17%	47,294	4.14%	48,524	2.60%
kWh Deliveries									
Residential	297,252,852	335,789,626	12.96%	381,799,100	13.70%	392,815,270	2.89%	424,915,178	8.17%
Commercial	631,099,644	686,404,562	8.76%	717,219,609	4.49%	733,576,815	2.28%	767,561,991	4.63%
Total	928,352,496	1,022,194,188	10.11%	1,099,018,709	7.52%	1,126,392,085	2.49%	1,192,477,169	5.87%
Revenues									
Residential	$26,050,644	$29,062,613	11.56%	$34,565,885	18.94%	$36,306,339	5.04%	$40,900,083	12.65%
Commercial	45,495,357	49,331,010	8.43%	53,053,597	7.55%	55,577,366	4.76%	60,302,788	8.50%
Total	$71,546,357	$78,393,623	9.57%	$87,619,483	11.77%	$91,883,705	4.87%	$101,202,871	10.14%
Peak Demand	239,400	274,650	14.72%	294,600	7.26%	282,090	(4.25)%	319,260	13.18%

Source: City of Roseville

Ten Largest Customers. The ten largest customers of the City's Electric System, as of June 30, 2006, are shown in Table 2 below.

Table 2
Ten Largest Customers as of June 30, 2006

Customer	Type of Business	% of Total kWh	% of Total Revenues
NEC Electronics	Manufacturing	12.1%	9.2%
Hewlett-Packard	Office/Manufacturing	5.5	4.4
Roseville Wastewater Treatment	Utility	1.8	1.5
Cassie Hill Center	Data Processing	1.6	1.3
Kaiser Hospital	Medical	1.3	1.1
Sutter Roseville Medical Center	Medical	1.2	1.0
SureWest Communications	Communications	0.9	0.7
Urban Retail Properties	Shopping Mall	0.7	0.7
Southern Pacific	Railroad	0.7	0.5
Albertsons	Warehouse/Distribution	0.7	0.5
Total		26.4%	20.9%

Source: City of Roseville

Sources of Power Supply

General. The City acquires power supply from three major sources: a long-term contract with Western; entitlements to a percentage of the capacity and energy of certain NCPA generation projects; and the open market for electricity. Table 3 below provides a summary of the City's sources of power supply, which are further described in detail below.

Table 3
Sources of Power Supply Fiscal Year Ended June 30, 2006

Source	Capacity Available (MW)	Actual Power (GWh)	% of Total
Western[1]	67.0	297.8	23%
NCPA[1]			
Geothermal Project	10.0	71.7	6
Hydroelectric Project	29.0	116.6	9
Combustion Turbine Project No. 1	19.0	0.4	0
Steam Injected Gas Turbine Generator Project	18.1	21.7	2
Seattle City Light[2]	20.0	30.2	2
Open Market Purchases[3]	200.0	760.7	59
Total	362.9	1,299.1	

Source: City of Roseville

1 Entitlements, firm allocations, and contract amounts.

2 This is a seasonal exchange agreement whereby the City receives more capacity and Seattle receives more energy on an annual basis.

3 Net firm and non-firm energy purchases on the open market.

Western Base Resource Agreement.

Roseville has a long-term contract with Western that provides Roseville with approximately 4.5 percent (approximately 67MW) of the output of the Central Valley Project generation net of project use, first preference allocations and control area obligations. The contract provides varying amounts of capacity and energy depending on hydrology and water storage conditions. The term of the agreement extends through December 31, 2024.

NCPA Geothermal Project.

Description. NCPA has developed a geothermal project (the "NCPA Geothermal Project") located on federal land in certain areas of Sonoma and Lake Counties, California, in addition to the geothermal leasehold, wells, gathering system and related facilities, the NCPA Geothermal Project consists of two electric generating stations (Geothermal Plant I and Geothermal Plant 2), each with two 55 MW (nameplate rating) turbine generating units utilizing low pressure, low temperature geothermal steam, associated electrical, mechanical and control facilities, a heat dissipation system, a steam gathering system, a transmission tapline and other related facilities.

Geothermal steam for the NCPA Geothermal Project is derived from geothermal property, which includes wellpads, access roads, steam wells and reinjection welts.

Ownership and Management. NCPA formed two not-for-profit corporations controlled by its members to own the generating plants of the NCPA Geothermal Project. NCPA manages the NCPA

Geothermal Project for the corporations and is entitled to all the capacity and energy generated by the NCPA Geothermal Project.

Financing. NCPA financed the NCPA Geothermal Project with NCPA Geothermal Project Number 3 Revenue Bonds, of which $217.3 million were outstanding as of June 30, 2006 (which represents total debt not including approximately $25 million in debt that has been economically defeased). The annual debt service on these bonds ranges from $3.0 million to $56.4 million, with a final maturity of July 1, 2010. The City's share of debt service is approximately $2.4 million per year.

City's Entitlement. The City has purchased from NCPA, pursuant to power sales contracts, a 7.88 percent entitlement share in the NCPA Geothermal Project and is obligated to pay a like percentage of all of the debt service and operating costs of the NCPA Geothermal Project.

Operation. Due to a decline in the steam field production, the NCPA Geothermal Project is currently being operated at an average of 126 MW rather than the base load of 238 MW. NCPA has implemented a number of strategies to reduce the rate of decline in steam field productions, such as lowering steam turbine operating pressures to improve mass flow, and augmenting mass flow by managing the injection of plant condensate and supplemental water. These changes have been effective in reducing the decline in steam production.

Due to current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease, reaching approximately 113 MW by the year 2010, and remaining in excess of 72 MW through 2030, the end of the study period.

NCPA Hydroelectric Project Number One.

Description. NCPA's Hydroelectric Project Number One (the "NCPA Hydroelectric Project") consists of (a) three diversion dams, (b) the 252 MW Collierville Powerhouse, (c) the Spicer Meadow Dam with a 5.5-MW powerhouse, and (d) associated tunnels located essentially on the North Fork Stanislaus River and on the Stanislaus River in Alpine, Tuolumne and Calaveras Counties, California, together with required transmission facilities.

Ownership and Management. The NCPA Hydroelectric Project (with the exception of certain transmission facilities discussed below) is owned by the Calaveras County Water District ("CCWD") and is licensed to CCWD by FERC under its license for Project No. 2409, which has a term of 50 years and expires in 2032.

Under a power purchase contract, NCPA (i) is entitled to the electric output of the NCPA Hydroelectric Project until fiscal year 2031-32, (ii) managed the construction of the NCPA Hydroelectric Project and (iii) operates the generating and recreational facilities of the NCPA Hydroelectric Project.

Under a separate FERC-issued license for Project No. 11197, with an expiration date coterminous with its license for Project No. 2409, NCPA holds the license to and owns two transmission lines from the NCPA Hydroelectric Project (the 230 kilovolt ("kV"); 1 kilovolt equals 1,000 volts).

Financing. NCPA financed the NCPA Hydroelectric Project through the issuance of the NCPA Hydroelectric Project Number One Revenue Bonds, of which approximately $501.1 million were outstanding as of June 30, 2006.

The City's nominal share of debt service is 12 percent, but the actual percentage share paid by the City is 9.9 percent due to certain economic defeasance portfolios established in 1998, under which a portion of the City's share of debt service was prepaid. The City's share of annual debt service (net of

these economic defeasance portfolios) continues to the year 2032 and ranges from $2.4 million to $4.3 million.

City's Entitlement. The City has a 12 percent entitlement share of the generating output of the NCPA Hydroelectric Project.

Operation. The operation of the NCPA Hydroelectric Project is determined by consideration of its storage capacity and available stream flows. The NCPA Hydroelectric Project's average production is estimated to be 550 GWh annually, based on the 108-year record (1895 to 2003) of stream flows on the two rivers supplying water to the project.

NCPA Combustion Turbine Project Number One.

Description. NCPA has developed its Combustion Turbine Project Number One (the "NCPA Combustion Turbine Project") consisting of five combustion turbine units, each nominally rated 25 MW. Two of the units are located in the City, two are in the City of Alameda and one is in the City of Lodi.

Financing. NCPA financed the NCPA Combustion Turbine Project through the issuance of the NCPA Combustion Turbine Project Number One Revenue Bonds, of which $24.8 million was outstanding as of June 30, 2006. The debt service on these bonds is approximately $4.3 million annually with a final maturity of August 15, 2010. The City's share in the debt service on these bonds is 13.58 percent. The City's share of annual debt service is approximately $600,000 per year.

City's Entitlement. Under a power sale contract, the City has purchased from NCPA a 13.58 percent entitlement share in the NCPA Combustion Turbine Project. As is typical of reserve and peaking resources, the average cost per kWh of power delivered to participants in the NCPA Combustion Turbine Project is comparatively expensive.

Operation. The NCPA Combustion Turbine Project provides capacity (i) that is economically dispatched during the peak load period to the extent permitted by air quality restrictions and (ii) that is used to meet capacity reserve requirements (which is operated only during emergency periods when other resources are unexpectedly out of service).

NCPA Steam Injected Gas Turbine Generator Project, Unit One.

Description, in 1992, NCPA undertook the financing of its Steam Injected Gas Turbine (a "STIG"), Unit One, with a design rating of 49.9 MW located in Lodi.

Financing. NCPA financed the NCPA Steam Injected Gas Turbine Generator Project through the issuance of $152.3 million of Multiple Capital Facilities Revenue Bonds, all of which have since been refunded or defeased with a subsequent issue of refunding bonds, approximately $67.2 million of which was outstanding as of June 30, 2006. The annual debt service on these refunding Bonds ranges from $485,000 to $5.9 million, with a final maturity in 2026. The City's share of annual debt service is approximately $2.0 million per year.

City's Entitlement. The capacity and energy of STIG Unit One is purchased through a contractual arrangement among the City, Alameda, Lompoc and Lodi, under which the City has purchased from NCPA a 36.55 percent entitlement share in the NCPA STIG Unit One. NCPA has entered into arrangements on behalf of the NCPA STIG Unit One Participants to provide for a gas supply for STIG Unit One.

Operations

Seattle City Light Power Capacity and Energy Exchange Agreement. NCPA, on behalf of Healdsburg, Palo Alto, Ukiah, Lodi and the City, executed a seasonal exchange agreement with Seattle City Light for 60 MW of summer capacity and energy and a return of 46 MW of capacity and energy in the winter. Deliveries under the agreement began June 1, 1995 and will terminate no earlier than May 31, 2014. The City has a 33.33 percent share of the benefits and burdens of the seasonal exchange agreement.

Open Market Term Purchase and Sale Agreements. The City enters into various fixed-price purchase or sale contracts on the open market at various times to meet its power supply requirements and hedge its portfolio costs consistent with its risk management policies. The City currently has one multi-year power purchase contract for 100 MW of on-peak energy with Morgan Stanley Capital Group, Inc. that expires on December 31, 2010. The City has sold back to Morgan Stanley on a forward basis 25MW of on-peak energy for the period January 1, 2007 through December 31, 2010 and 50 MW of on-peak energy for the calendar year 2008.

The City has also entered into several short-term purchases from a number of power suppliers. The terms of these short-term purchase agreements range from one to three months.

Future Power Supply Resources. The City is currently constructing the Roseville Energy Park. Roseville Energy Park generally consists of a nominal 120 megawatt (MW) natural gas-fired generation facility to be located on 12 acres of a larger City-owned parcel adjacent to and north of the Pleasant Grove Wastewater Treatment Plant. The plant includes the ability to peak-fire up to 160 MW nominal during summer peak demand conditions through the use of duct burners in the heat recovery steam generators. The project includes two Siemens combustion turbine-generators ("CTGs"), two Vogt heat recovery steam generators ("HRSGs"), a single condensing steam turbine generator ("STG"), a de-aerating surface condenser; a four-cell mechanical draft cooling tower; and associated support equipment. Gemma Power Systems California, Inc. is serving as the lead contractor for the Roseville Energy Park pursuant to an Engineering, Procurement and Construction contract. Engineering services are being provided to Gemma by Parsons E&C. The Roseville Energy Park is fully permitted and expected to commence commercial operations in the summer of 2007.

PG&E will own and maintain the new natural gas supply pipeline that will serve the Roseville Energy Park. The City will contract with natural gas suppliers to supply natural gas to the Roseville Energy Park via the PG&E pipeline network. The natural gas the City is obligated to purchase under the Gas Supply Agreement is expected to provide approximately 53 percent of the City's expected gas requirements for Roseville Energy Park.

In addition to the Roseville Energy Park, the City expects that it will obtain additional resources from market purchases or investment in generation facilities, either independently, through NCPA or other agencies.

Table 4
Projected Energy Requirements and Resources
Fiscal Years 2006-2007 through 2014-2015
(GWh)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
City-Owned Generation									
Roseville Energy Park	54	692	707	783	724	737	566	591	619
Joint Powers Facilities									
Geothermal Project	86	84	82	80	78	76	73	72	70
Hydroelectric Project	66	70	67	67	66	67	66	66	67
Combustion Turbine Project No. 1	7	1	1	1	1	1		-	0
Steam Injected Gas Turbine Generator Project	42	39	42	47	46	38	22	20	24
Subtotal:	253	887	900	979	916	918	727	749	780
Long-Term Purchases and Exchanges									
Western	153	153	153	153	153	153	153	153	153
Morgan Stanley Capital Group	430	245	123	123	62				
Seattle City Light	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Subtotal:	576	392	269	269	208	146	146	146	146
Net Short-Term Market Purchases (Sales)	506	70	224	185	349	448	675	685	687
Total Energy Resources	1,335	1,349	1,393	1,432	1,472	1,513	1,548	1,580	1,612
Total Energy Requirements	1,335	1,349	1,393	1,432	1,472	1,513	1,548	1,580	1,612

Source: City of Roseville.

Power Supply Risk Management

The Electric System has in place a rigorous risk management program to ensure that customers will, to the extent possible, be insulated from the volatility of energy supply (energy and natural gas) prices. The Electric System established a Risk Oversight Committee ("ROC"), risk management policies and procedures. The ROC meets quarterly to review energy trading activities and to ensure adherence to the risk management policies.

All energy purchases are made to supplement existing resources to meet forecasted load requirements. Generally, the City purchases or sells energy that is deficit or surplus to its retail customer needs independently within a 12-month horizon and by using the scheduling and load following services of ACES Power Marketing within a 30-day horizon. The City's risk management policies include short-term and long term measures.

In general, short-term measures limit market price exposure for the fiscal budget year to 5 percent or less of the City's budgeted purchased power cost and limit portfolio open volume to no more than +/- 10 percent of forecast load.

The City's long-term risk management strategy provides a ceiling for the percentage of unhedged energy (electricity and natural gas) to meet expected loads as follows:

Fiscal Year	Minimum Hedged Supply	Maximum Unhedged Supply
1	90%	10%
2	80%	20%
3-5	70%	30%
6-10	40%	60%

Source: City of Roseville

The policy requires that the City purchase forward electric contracts and/or forward gas contracts to fulfill its long-term hedged supply requirement. In the event of decreases in expected sales levels, the policy may require that the City sell forward gas and/or electric contracts. The policy also permits the use of financial commodity contracts to limit price risk.

The City's natural gas procurement strategy will primarily involve purchasing natural gas for Roseville Energy Park's expected operation at a monthly index price. The City will manage daily dispatch variation through the purchase or sale of natural gas at the daily index price. The City expects to hedge its monthly index purchases with financial contracts in accordance with its risk management policies.

Regional Transmission Facilities

ISO Controlled Grid.

NCPA Project generation and most market purchases are delivered over the ISO Controlled Grid to the electric system of Western, to which the City is physically interconnected. Western energy purchases are delivered to Roseville solely over Western transmission facilities.

NCPA Geysers Transmission Project.

Ownership and Description. In order to meet certain obligations required of NCPA to secure transmission and other support services for the NCPA Geothermal Project, NCPA and its transmission project participants (including the City) undertook the "Geysers Transmission Project," which includes (a) an ownership interest in PG&E's 230 kV line from Castle Rock Junction in Sonoma County to the Lakeville Substation, (b) additional firm transmission rights in this line, and (c) a central dispatch facility (see "- Dispatch and Scheduling" below).

Financing. NCPA financed the Geysers Transmission Project through the issuance of Transmission Project Number One Revenue Bonds, which were outstanding in the principal amount of approximately $5.5 million as of June 30, 2006. The City's share of debt service is approximately $60,000 per year.

City's Entitlement The City is entitled to a 14.18 percent share of the Geysers Transmission Project transfer capability, and is responsible for 14.18 percent of debt service on the Transmission Project Number One Revenue Bonds.

TANC California-Oregon Transmission Project.

Ownership and Description. Fourteen Northern California cities and districts, including the City, and one rural electric cooperative are members or associate members of a California joint powers agency known as the Transmission Agency of Northern California ("TANC").

TANC, together with the City of Vernon, California ("Vernon"), Western, three California districts and authorities and PG&E (collectively, the "COTP Participants") own the California-Oregon Transmission Project ("COTP"), a 339-mile long, 1,600 MW, 500 kV transmission power project between Southern Oregon and Central California. The COTP was placed in service on March 24, 1993, at a cost of approximately $430 million, and was financed through a combination of bonds and notes issued by TANC.

City's Entitlement. Under Project Agreement No. 3 for the COTP (the "TANC Agreement"), the City is entitled to 2.313 percent of TANC's share of COTP transfer capability (approximately 29.35 MW). In return, the City has severally agreed to pay, on an unconditional take or pay basis, 2.295 percent of the construction costs of the COTP, including debt service, and 2.313 percent of TANC's COTP operating and maintenance expenses. The City's share of annual debt service continues to the year 2024 and is approximately $700,000 per year.

City Use of COTP. The City uses its rights in the COTP to make power purchases for the Electric System and to deliver its share of the Seattle City Light contract energy.

Tesla-Midway Transmission Service.

The southern physical terminus of the COTP is near PG&E's Tesla Substation in the San Francisco Bay Area. The COTP is connected to Western's Tracy and Orinda Substations. TANC has arranged for PG&E to provide TANC and its members with 300 MW of firm bi-directional transmission capacity in its transmission system between its Tesla Substation and the Midway Substation (the "Tesla-Midway Service") under an agreement known as the South of Tesla Principles.

The City's share of this Tesla-Midway Transmission Service is 5 MW. The City utilizes its allocation of Tesla-Midway Transmission Service for firm and non-firm power transactions when available and economic to do so.

City Distribution System

The City owns and operates the electrical distribution system serving retail customers within the City's boundaries. The distribution system is connected to the Western system at the two connection points, the 230-kV Berry Street Receiving Station and the 230-kV Fiddyment Station. The distribution system consists of over 130 miles of overhead lines, 514 miles of underground lines and 14 substations. The City performs continued maintenance on its distribution system to sustain service reliability.

Dispatch and Scheduling

Beginning July 1, 2006, the City contracted with ACES Power Marketing (APM) to provide scheduling services and discontinued its participation in the NCPA Power Pool. NCPA continues to dispatch the NCPA power plants to meet the schedules submitted by APM. NCPA provides dispatch service from its dispatch control center located at its headquarters in the City.

Energy Efficiency and Conservation

AB 1890, the electric utility deregulation law, required the establishment of public benefit programs for investor owned and public power utilities through 2001. On September 30, 2000, the governor signed into law SB 1194 and AB 995, which extend the requirement to support public benefit electricity programs through January 1, 2012. The City funds these programs at five percent of gross revenues (approximately $5 million per year based on fiscal year 2005-2006 gross revenues).

Roseville Electric has developed a full portfolio of public benefits programs since 2001, addressing the four areas of concentration required by state law: low income assistance programs, renewable energy production, advanced electric technology demonstration and research and development, as well as energy efficiency programs.

Residential and commercial energy efficiency offerings focus on summer period consumption reduction and include programs for both existing facilities and new construction.

Plans for 2007 include Roseville Electric's BEST (Blueprint for Energy Efficiency and Solar Technology) Homes Program. The goal for the BEST Homes program is to ensure that 10-20 percent of all new homes built in Roseville utilize design criteria that substantially reduces the home's electricity bill. A typical BEST Home should create little or no demand on the electric grid during the summer peak period. The BEST Homes program offers generous financial incentives to builders who integrate energy efficiency and solar generation technology into new home construction.

Additionally, in 2007, Roseville Electric will implement a new residential load management program to reduce Roseville Electric's peak system load during the summer months of June, July, August, and September. The Load Control Program will be a voluntary program for City of Roseville residents. Load control devices will be installed on the customer's air conditioner or a programmable communicating thermostat will be installed inside the customer's home. These devices will allow Roseville Electric to send a signal to the device that will cycle the air conditioner off for short periods of time during system peak emergencies.

Insurance

The Electric System's insurance needs are handled by the Risk Management Division of the City's Human Resources Department. The City, including the Electric System, is self-insured for up to $500,000 for all insurance needs including casualty and liability and up to $250,000 for workers' compensation. The City has also joined with a group of other municipalities to participate in two joint powers authorities, the California Joint Powers Risk Management Authority, that provides excess coverage up to $25,000,000 for casualty and liability, and the Local Agency Workers' Compensation Excess Joint Powers Authority, for excess coverage up to $50,000,000 for workers' compensation.

Capital improvement Plan

The City's currently anticipated capital improvement plan for the Electric System primarily encompasses both improvements to and expansion of the City's electricity distribution system and the final construction phases of the Roseville Energy Park. As shown in the Capital Plan below, the City is forecasting electric system capital spending in excess of $88 million over the next five years.

Table 5

Capital Improvement Plan Summary

Fiscal Year Ending June 30	Capital Improvement Projects
2006-07	$38,000,000
2007-08	22,000,000
2008-09	11,000,000
2009-10	9,000,000
2010-11	8,000,000
Total:	$88,000,000

Source: City of Roseville

The City expects to fund a portion of the capital improvement program with proceeds of its Series 2004 Certificates of Participation and its Series 2005 Certificates of Participation. As of June 30, 2006, there were approximately $81,000,000 of unexpended construction proceeds available for such purpose. The remaining capital expenditures are expected to be financed with revenues collected from rates.

Electric Rates

Rate-Setting Procedure. Under the City Charter and State law, the City has the exclusive jurisdiction to set electric rates within its service area by ordinance, which requires a majority vote of the City Council. These rates are not subject to review by the California Public Utilities Commission or any other state or federal agency.

The City Council reviews Electric System rates periodically and makes adjustments as necessary.

The City Council is also authorized by the City Charter to set charges, pay for and supply all electric power to be furnished to customers according to such schedules, tariffs, rules and regulations as are adopted by the City Council. The City Charter provides that the City Council will have the power to charge equitable rates for the electric services furnished and for building up the electric properties so as to conserve their value and increase their capacity as needed by the City.

In addition, the City Charter provides for the maintenance of the Electric Fund for the Electric System into which is deposited receipts from the operations of the Electric System and from which are payable the costs and expenses of the Electric System.

Service Charges and Demand Charge as of July 2006. The City's monthly residential electric rates currently include a $6.50 service charge plus $0.0809 per kWh consumed up to 500 kWh, and $0.1080 per kWh for consumption in excess of 500 kWh.

For non-residential customers, the monthly service charge ranges from $6.50 to $150.00 plus $0.0657 to $0.0869 per kWh consumed. Additionally, some non-residential customers are eligible for discounts ranging from two percent to 3.5 percent for primary service delivery and high load factors.

Certain non-residential users are also subject to a demand charge ranging from $2.59 per kW to $3.79 per kW.

Ten-Year History of Rate Adjustments. Over the past ten years, the City's retail electric rates have increased an average of 2.25 percent annually, well below the rate of inflation. Following is the City's rate change history:

- July 2007 – revenue rate increase of six percent for all customers (approved but not yet effective).
- July 2006 – revenue rate increase of five percent for all customers.
- April 2005 – revenue rate increase of five percent for all customers.
- January 2004 – revenue neutral rate changes; tiered rates for residential customers and customer rate class consolidation for commercial customers.
- July 2002 – four percent rate rebate for all customers (effective from September 2002 through August 2003).

- December 2001 – five percent revenue increase for residential and 7.5 percent revenue increase for commercial customers.
- October 2000 – revenue neutral rate realignment among the unbundled charges for all customers.
- January 2000 – revenue neutral rate adjustment to unbundled customer rates.
- July 1997 – revenue neutral rate adjustment increasing residential rates by seven percent and decreasing commercial rates by 3.5 percent.

Rate Comparison

The City's current retail electric rates are among the lowest in California and over 40 percent lower than the retail electric rates being charged by the investor-owned utility, Pacific Gas and Electric Company, in the Sacramento region. Table 6 below sets forth a comparison between average electric rates paid by City customers and PG&E customers.

Table 6

Electric Rate Comparison with PG&E (cents/kWh)
as of June 30, 2006

Customer Type	Roseville Electric Rates	PG&E Rates
Residential	9.58	14.49
Small Commercial	8.73	15.50
Medium Commercial	8.71	14.61
Large Commercial	6.44	12.07
System Average	8.42	13.94

Source: City of Roseville.

Electricity Rate Regulation

No Current Direct Regulation. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not currently subject to the regulatory jurisdiction of the California Public Utilities Commission, and presently neither the California Public Utilities Commission nor any other regulatory authority of the State of California nor FERC limits or restricts such rates and charges.

California Energy Commission. The California Energy Commission is authorized to evaluate rate policies for electric energy as related to goals of the Energy Resources Conservation and Development Act and make recommendations to the Governor, the Legislature and publicly owned electric utilities.

ELECTRIC SYSTEM FINANCIAL INFORMATION

Significant Accounting Policies

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and

changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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

The Electric Fund uses the accrual method of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Investments are stated at cost, inventories are valued at weighted average method. Capital assets are recorded at historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated.

Audited Financial Statements

The City's Annual Financial Report is audited by Maze & Associates, A Professional Corporation, Pleasant Hill, California (the "Auditor"), in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited financial statements.

Copies of these reports for prior fiscal years are available on the City's website, www.roseville.ca.us. *The website address is given for reference and convenience only and the current accuracy of information contained therein cannot be assured; nothing on the website is a part of this Official Statement or incorporated into this Official Statement by reference.*

The City's Annual Financial Report for the fiscal year ended June 30, 2006 is attached as Appendix B to this Official Statement.

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the Electric System. In addition, the Auditor has not reviewed this Official Statement.

Outstanding Indebtedness

Indebtedness Payable from Net Revenues of the Electric System.

Certificates of Participation. The City currently has outstanding certificates of participation (the "Outstanding Certificates") that were executed and delivered to finance and refinance improvements to the Electric System as described in the table below. The Outstanding Certificates are payable from certain payments to be made by the City under an installment purchase contract (the "Installment Purchase Contract"), the payments under which are payable from and secured by the Net Revenues of the Electric System ("Net Revenues" are defined generally as Revenues of the Electric System less the maintenance and operation costs of the Electric System during any 12-month period). Additional information regarding the Outstanding Certificates is provided in the Notes to the City's Annual Financial Report for the fiscal year ended June 30, 2006, which is included in this Official Statement as Appendix B.

Series	Original Date of Execution and Delivery	Original Principal Amount	Currently Outstanding Principal Amount
1997	Nov. 13, 1997	$ 11,880,000	$ 325,000
1999	Aug. 18, 1999	21,630,000	1,635,000
2002	Dec. 18, 2002	40,385,000	25,620,000
2004	July 13, 2004	39,940,000	39,940,000
2005	June 30, 2005	202,900,000	202,900,000

Source: City of Roseville.

Prior Obligations. The City participates in certain joint powers agencies, including NCPA and TANC, through which the City owes a share of debt service on debt issued by those joint powers agencies. See "THE ELECTRIC SYSTEM—Sources of Power Supply" and "—Regional Transmission Facilities."

Obligations of the City, such as the payments under the Supply Agreement as well as the City's agreements with Western, TANC and NCPA, which constitute operating expenses of the Electric System, are payable prior to any of the payments required to be made under the Installment Purchase Contract.

The agreements with NCPA and TANC are on a "take or pay" basis, which requires payments to be made whether or not the projects are operable, or whether output from such projects is suspended, interrupted or terminated. Certain of these agreements contain "step up" provisions obligating the City to pay a share of the obligations of a defaulting participant and granting the City a corresponding increased entitlement to electricity (generally, the City's "step-up" obligation is limited to 25 percent of the City's scheduled payments on such obligations).

The City's participation and share of debt service 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:

Table 7
City Share of
Outstanding Joint Powers Agencies Debt
As of June 30, 2006
(Dollar Amounts in Millions)

	Outstanding Debt	Roseville Participation	Roseville Share of Outstanding Debt
NCPA			
Geothermal Project	126.5	7.9%	10.0
Transmission Project	484.1	14.2	0.6
Hydroelectric Project	490.1	12.0	58.8
Combustion Turbine Project	18.5	13.6	2.5
Multiple Capital Facilities Project	65.8	36.5	24.0
TANC			
Bonds	385.6	2.3	8.9
Notes	34.6	2.3	0.8
TOTAL	$ 1,125.1		$ 105.5

Source: City of Roseville.

Financial Policies

The City Council has adopted financial policies for the Electric System which establish, among other policies, a Rate Stabilization Fund to hedge for price volatility. Amounts in the Rate Stabilization Fund are anticipated to be used to pay down supply expenses to keep the City's electric rates stable. The Rate Stabilization Fund had a balance of approximately $64 million as of June 30, 2006. The financial policies also establish financial ratios for debt service coverage, leverage, and liquidity and limit the Electric System's exposure to short term interest rates.

Historic Revenues, Expenses and Debt Service Coverage

Table 8 presents a five-year summary of the revenues, expenses, and debt service coverage for the City's Electric Fund for fiscal years 2001-2002 through 2005-2006. This table is based on historic operating results of the Electric System, but is presented on a cash basis consistent with the definitions of Revenues and Maintenance and Operation Costs as defined in the Installment Purchase Contract, and as such, does not match the audited financial statements of the Electric System.

Table 8 also includes a five-year history of balances in the Rate Stabilization Fund, and calculates debt service coverage both with and without taking into account the Rate Stabilization Fund balance.

Table 8
Statement of Revenues and Expenses
Fiscal Years 2001-2002 through 2005-2006
(Dollars in Thousands)
(Fiscal Years Ended June 30)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Revenues					
Charges for Services	$ 71,908	$77,602	$87,719	$91,884	$101,342
Sale of Wholesale Power[1]	335	1,957	6,320	6,757	1,065
Other	155	346	349	208	365
Total Revenues	72,398	79,905	94,388	98,849	102,772
Operating Expenses					
Purchased Power	61,022	51,962	49,816	67,179	68,659
Distribution/Operations	12,146	11,917	11,244	14,946	15,986
Administration	1,869	2,137	2,504	2,910	2,164
Indirect Costs[2]	2,359	2,832	3,946	4,153	4,640
Other Administrative Transfers[3]	1,639	771	783	891	1,133
Total Operating Expenses	79,035	69,619	68,293	90,079	92,582
Net Revenue	6,637)	10,286	26,095	8,870	10,190
Debt Service					
1997 COP Payments	561	448	334	328	313
1999 COP Payments	1,549	1,074	560	560	536
2002 COP Payments		910	5,906	5,997	6,391
2004 COP Payments				1,822	1,838
2005 COP Payments					
Total Debt Service	2,110	2,432	6,800	8,687	9,078
Adjusted Net Revenue					
Net Revenue	(6,637)	10,286	26,095	8,870	10,190
Transfer from Rate Stabilization Fund[4]		2,826	507	4,000	9,000
Transfer from NCPA GOR[5]	11,224				
Plus Interest Revenue (excluding unrealized gain/loss)	3,127	2,502	2,039	1,856	2,279
Plus subventions/grants	1,775	51			
Adjusted Net Revenue	$ 9,489	$15,665	$ 28,641	$14,726	$21,469
Debt Service Coverage Ratio	4.50x	6.44x	4.21x	1.70x	2.36x
Rate Stabilization Fund Cash Balance	$ 48,358	$ 47,544	$ 48,684	$ 71,404	$ 64,358
DSC Ratio including RSF	27.42x	25.99x	11.37x	9.91x	9.45x

Source: City of Roseville

1 Represents sale of electricity on the open market.

2 Represents payments to the City as reimbursement for the Electric System's share of certain overhead expenses.

3 Represents payments to the City for corporation yard rent, the Electric System's share of geographical information system costs, and remodeling expenses.

4 Fiscal year 2002-2003 and 2003-2004 transfers used to fund a one-time rebate to ratepayers payable over 18 months.

5 The City periodically deposits funds in the General Operating Reserve ("GOR") maintained by NCPA in accordance with the contractual relationship between the city and NCPA. In fiscal year 2001-2002, the City determined that the amounts in the GOR exceeded its contractual requirement and transferred $11.224 million from the GOR to the Electric System operating fund.

Projected Operating Results

Table 9 sets forth the projected revenues, expenses and debt service coverage of the Electric System for the current fiscal year and the next four fiscal years. The assumptions used in these projections are as follows:

Electric Rates. In June 2005, the City Council approved two five percent rate increases to be implemented over two years. The first rate increase took effect in July 2006. The second rate increase will take effect in July 2007. No other rate increases are assumed in the projections.

Local Economy. Residential and commercial vacancy rates will remain stable, and no major state or local economic recessions occur.

New Development. Development will continue consistent with the current Roseville General Plan and projections include a market driven land use scenario based upon growth estimates prepared by an independent firm. The City annexed property in October 2004 known as the West Roseville Specific Plan (WRSP) area. The WRSP area development is expected to add over 8,000 dwelling units within the next eight years. Another two annexations are expected to bring over 7,000 dwelling units and over 100 additional acres of commercial development.

Customer Demand. Major current customers will not reduce electricity load. Projected growth in electricity load demand ranges from two percent to four percent annually.

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Table 9
Projected Revenues, Expenses and Debt Service Coverage
(Dollars in Thousands)

	2006-07	2007-08	2008-09	2009-10	2010-11
Operating Revenues					
Charges for Services	$110,679	$121,355	$125,017	$128,522	$131,955
Sale of Wholesale Power	3,336	14,750	22,798	22,798	11,436
Transfer from Rate Stabilization Fund	-	-	3,000	4,000	4,000
Other [1]	94	335	340	345	350
Total Operating Revenues	$114,109	$136,440	$151,155	$155,665	$147,741
Operating Expenses					
Power Supply	75,644	81,279	97,171	96,310	89,527
Transmission	7,092	5,819	6,203	6,270	6,972
Distribution [2]	11,434	11,816	12,212	12,622	13,046
Public Benefits	4,500	4,635	4,774	4,917	5,065
Indirect Costs - City [3]	6,138	6,445	6,767	7,106	7,461
Administrative	3,054	3,146	3,240	3,337	3,437
Total Operating Expenses	107,862	113,140	130,367	130,561	125,508
Non-Operating Revenues					
Interest	2,923	3,200	3,400	3,500	3,500
Net Revenues Available for Debt Service	$9,170	$25,500	$24,187	$28,604	$25,7333
Debt Service					
1997 COP Payments	340	-	-	-	-
1999 COP Payments	586	584	584	-	-
2002 COP Payments	1,026	1,370	1,372	1,978	1,980
2004 COP Payments	2,274	2,269	2,269	2,267	2,268
2005 COP Payments	-	8,353	9,319	10,255	11,910
Total Debt Service	$4,226	$12,576	$13,544	$14,500	$16,158
Debt Service Coverage Ratio	2.17x	2.11x	1.79x	1.97x	1.59x
Rate Stabilization Fund Cash Balance	$78,000	$81,000	$81,000	$80,000	$78,000
Debt Service Coverage Ratio Including Rate Stabilization Fund Balance	20.63x	8.55x	7.77x	7.49x	6.42x

Source: City of Roseville

1 Represents miscellaneous revenue including reconnection fees and reimbursement from other City departments.
2 Includes traffic signal and streetlight maintenance costs.
3 Includes indirect costs and other transfers reimbursed to the City.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Because the City will purchase gas from the Issuer and use the gas to generate electrical power (see "INTRODUCTION"), factors affecting the electric utility industry may affect the financial condition of the City, the revenues to be received by the Issuer from the City and the transactions described herein.

Electric utilities are subject to state, federal and local scrutiny, within applicable law, with respect to the selling and licensing of facilities, safety and security, air and water quality, land use and other environmental factors.

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.

Energy Procurement and Efficiency Reporting. Senate Bill 1037, signed by the Governor on September 29, 2005, requires that each municipal electric utility, including the City, in procuring energy, first acquires all available energy efficiency and demand reduction 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 State Energy Resources Conservation and Development Commission (the "California Energy Commission" or 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 investor-owned utilities ("IOUs") adopt a Renewable Portfolio Standard ("RPS") to meet a minimum of 1 percent of retail energy sales needs each year from renewable resources and to meet a goal of 20 percent 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 percent 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 California 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.

Since the implementation of Senate Bill 1078, the California Public Utilities Commission (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 undertaken the development and establishment of the Western Renewable Energy Generation Information System, which will be used to ensure the integrity of renewable energy certificates and prevent the double counting of the certificates. The tracking system is anticipated to be operational in late 2007.

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, including 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 California Energy Commission for the funding of solar energy systems receiving ratepayer funded incentives, which would be established through a public process no later than January 1, 2008. 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 percent 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.

Greenhouse Gas Emissions. In its 2003 Integrated Energy Policy Report, the California Energy Commission recommended that utilities account for the cost of greenhouse gas emission reductions in utility procurement decisions. In December 2004, the CPUC also established an $8-$25/ton 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 greenhouse emissions.

On June 1, 2005, the Governor signed Executive Order S-3-05, which placed an emphasis on such efforts to reduce greenhouse gas emissions by establishing Statewide greenhouse gas 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 percent 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 percent biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

On September 27, 2006 the Governor signed into law Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"). The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas emission levels by 2020 and 80 percent below 1990 levels by 2050. In addition, the GWSA establishes a mandatory reporting program to the Air Resources Board ("ARB") for significant greenhouse gas 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 became law on September 29, 2006 and provides for a restriction on the negotiation of contracts with potential baseload fossil fuel electric generating resources that exceed the rate of emissions for greenhouse gases for existing combined-cycle natural gas baseload generation and seeks to allow the CEC to establish a regulatory framework necessary to enforce the

greenhouse gas emission performance standard for publicly-owned utilities, such as the City. Meanwhile, Assembly Bill 1925 became law on September 26, 2006 and provides for 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 into law, which authorizes the Wildlife Conservation Board (the "WCB") to take into account the potential of forestlands to beneficially reduce or sequester greenhouse gas 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 greenhouse gas emissions.

Certain Federal Issues

The U.S. Congress has been attempting to implement a national energy policy since 2002. As noted, on August 8, 2005, President Bush signed into law the 2005 Energy Policy Act. From the electricity standpoint, the 2005 Energy Policy Act: (a) authorizes (but does not obligate) FERC to require "unregulated transmitting utilities" that were formerly exempt from regulation under sections 205 and 206 of the Federal Power Act (the "FPA") to provide open access to their transmission systems and to comply with certain rate change provisions of section 205 of the FPA; (b) authorizes FERC to order refunds for certain short-term wholesale sales made by state and municipal power entities if such sales violate FERC-approved tariffs or FERC rules: (c) allows load serving entities holding certain firm transmission rights to continue to use those rights to serve their customers; (d) provides that an "electric reliability organization" ("ERO") will develop reliability standards for operation of the transmission grid subject to FERC approval, that compliance with such standards will be mandatory and enforceable by the ERO and FERC, and that the ERO may delegate its authority to regional entities subject to FERC approval; (e) adds to the FPA a prohibition on market manipulation and submission of false information, and expands civil and criminal penalties for violation of the FPA; (f) authorizes FERC to issue construction permits for transmission projects located in "national interest electric transmission corridors" (to be designated by the Department of Energy) in circumstances where the applicable state or regional siting agency does not timely act on a project or imposes unreasonable conditions; (g) eliminates certain ownership restrictions on electric utilities regarding "qualifying facilities" and relaxes the utility purchase obligation applicable to sales output of these qualifying facilities if certain market condition findings are made by FERC: (h) requires state utility regulatory commissions and "non-regulated electric utilities" to consider adopting certain standards on net metering, fuel diversity, fossil fuel plant diversity, certain metering and time-based rate schedules and demand response, and interconnection with distributed generation facilities; (i) repeals the Public Utility Holding Company Act, effective six months after enactment of the 2005 Energy Policy Act; but gives FERC limited "books and records" regulatory oversight of public utility holding companies, (j) increases FERC's authority to review mergers of public utility companies; and (k) directs FERC to establish transmission investment incentives in transmission rate structures for public utilities.

Impact of Developments on the City

The foregoing discussions of certain provisions of State Legislation and the 2005 Energy Policy Act do not purport to be comprehensive discussions. Information on those laws is available from many sources in the public domain. Existing and future owners of the Bonds should obtain and review such information. Neither the Issuer nor the City is able to predict with great certainty what effects such changes in the electric utility industry will have on the business operations and financial condition of the City's electric system.

APPENDIX B — AUDITED FINANCIAL STATEMENTS OF THE CITY OF ROSEVILLE, CALIFORNIA FOR YEAR ENDED JUNE 30, 2006

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

Honorable Mayor and City Council
City of Roseville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, California (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for 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 audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, California as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedure applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze and Associates

November 22, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Roseville's financial statements a narrative overview and analysis of the financial activities of the City of Roseville for the fiscal year ended June 30, 2006. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Even with the recent slowdown in the housing market, the City remained strong economically, as General Fund tax revenues increased, business activities were healthy and growing, and revenues for capital expenditures grew at the pace of development. The City's financial highlights are presented below:

FISCAL YEAR 2006 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2006 include the following:

Entity-wide:

- The City's total net assets were $2.1 billion as of June 30, 2006. Of this total, $923.3 million were Governmental assets and $1.1 billion were Business-type assets.
- Governmental revenues include program revenues of $147.5 million and general revenues and transfers of $118.3 million for a total of $265.8 million.
- Governmental expenses were $135.9 million.
- Business-type program revenues, interest revenue and miscellaneous revenues were $244.6 million while Business-type expenses and transfers were $191.9 million.

Fund Level:

- Governmental Fund balances increased to $218.2 million in fiscal year 2006, up $33.5 million from the prior year.
- Governmental Fund revenues increased to $239.7 million in 2006, up $98.9 million from the prior year. This was primarily due to an increase of tax revenues of $6.9 million, $84.8 million in contributions of bond proceeds for Community Facility Districts and other developer contributions, $4.5 million in charges for services, and use of money and property of $2.9 million. Governmental Fund expenditures increased to $229.6 million in fiscal year 2006, up $67 million from the prior year. This increase was primarily due to increases of capital outlay of $49.6 million, public safety of $7.2 million, $4.6 million in public works, and $4.7 million in general government.
- Other Financing Sources provided a net of $23.4 million in fiscal year 2006, up $6.1 million from 2005 due to $3.5 million in proceeds from property sales in 2006 and an increase of proceeds from capital leases of $2.1 million.

General Fund:

- General Fund revenues of $100.8 million were $12.4 million higher than the prior year, with the largest increases in taxes and charges for services.
- General Fund expenditures of $109.9 million represented an increase of $19.9 million over the prior year. The largest increases were in general government, public safety, and capital outlay.
- Other Financing Sources showed $16.1 million, which was slightly decreased from 2005.
- The General Fund balance of $64.3 million as of June 30, 2006 is up from fiscal year 2005's fund balance of $57.2 million.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is divided into six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this section),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Required Supplemental Information,
5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-wide Financial Statements provide an overview of the City's activities, and are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full-accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the City's revenues and all of its expenses, also on the full-accrual basis, with the emphasis on measuring net revenues or expenses of each the City's major functions. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into either Government Activities or Business-type Activities, as explained below. The amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities for the City.

The Fund Financial Statements report the City's operations in more detail than the entity-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Fiduciary Statements provide financial information about the activities of the Community Facilities Districts and certain other entities, for which the City acts solely as agent. The Fiduciary Statements provide information about the cash balances and activities of these Districts and other entities. These statements are separate, and their balances are excluded, from the City's basic financial statements.

The Entity-wide Financial Statements

Entity-wide financial statements, prepared on the accrual basis, measure the flow of all economic resources of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

- ***Governmental Activities***—All of the City's basic services are considered to be governmental activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as user fees and charges.

  The City's governmental activities also include the activities of three separate legal entities, the Redevelopment Agency of the City of Roseville, the Roseville Finance Authority, and the City of Roseville Housing Authority. The City is financially accountable for these entities.

- ***Business-type Activities***—The City's enterprise activities of electric, water, wastewater, solid waste, golf course, local transportation, and school-age child care are reported in this area. Unlike governmental activities, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

In the City's case, the Redevelopment Agency of the City of Roseville Fund and the Community Facilities District Projects Fund are the only Major Governmental Funds in addition to the General Fund.

All seven of the City's Enterprise Funds are reported as Major Funds.

Fund Financial Statements include governmental and proprietary funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis. This means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund Financial Statements are prepared on the full-accrual basis, and include all of their assets and liabilities, current and long-term.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the Entity-wide Financial Statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and the Redevelopment Agency of the City of Roseville Fund, as required by GASB 34.

Fiduciary Statements

The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds' Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1, 2, and 3 focus on the City's Governmental Statement of Net Assets and Statement of Activities, while Tables 4, 5, and 6 focus on the City's Business-type Statement of Net Assets and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Assets at June 30
(in Millions)

	2006	2005
Cash and Investments	$298.5	$255.2
Other Assets	36.7	31.9
Capital Assets	688.4	600.4
Total Assets	**1,023.6**	**887.5**
Long-Term Debt Outstanding	33.3	32.0
Other Liabilities	67.0	62.2
Total Liabilities	**100.3**	**94.2**
Net Assets:		
Invested in Capital Assets, Net of Debt	664.1	579.8
Restricted	149.8	124.5
Unrestricted	109.4	89.0
Total Net Assets	**$923.3**	**$793.3**

The City's governmental net assets amounted to $923.3 million as of June 30, 2006, an increase of $130 million over 2005. This increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2006 comprised the following:

- Cash and investments comprised $246.8 million in the city treasury and $51.7 million of restricted cash and investments. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 3 to the financial statements.

- Receivables comprised $16.9 million of which are current, along with deferred receivables of $2.1 million and notes receivable of $10.3 million that are due over longer periods of time, as explained in Notes 5 and 6 to the financial statements.

- Capital assets of $688.4 million, net of depreciation charges, includes all of the City's infrastructure as well as other capital assets used in governmental activities, as discussed in Note 8.

- Current liabilities—including accounts payable, claims, and other amounts due currently—totaled $51.0 million.

- Accrued compensated absence liabilities payable to employees of $7.6 million, as explained in Note 1G to the financial statements.

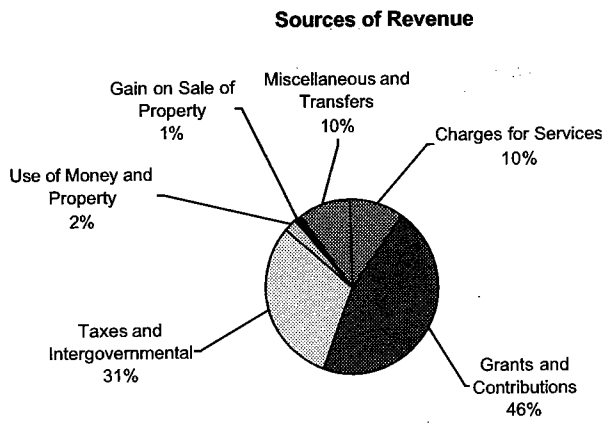
- Long-term debt of $33.3 million, of which $32.1 million is due in future years and $1.2 million is due currently, as detailed in Note 9.

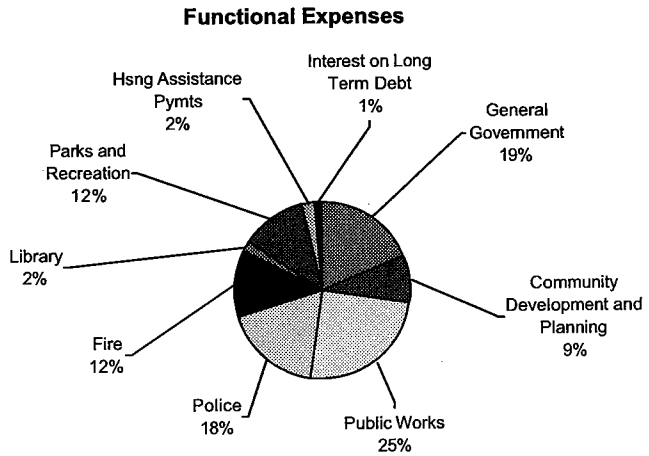
- Net assets invested in capital assets net of related debt of $664.1 million, representing the City's investment in infrastructure and other capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.

- Restricted net assets totaling $149.8 million, only may be used to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds cannot be changed by the City.

- Unrestricted net assets is that part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had $109.4 million of unrestricted net assets as of June 30, 2006. While these assets are technically unrestricted, most of these assets are designated for a specific use.

Fiscal Year 2006 Government Activities





As the Sources of Revenue Chart above shows, $82.2 million, or 31% of the City's fiscal year 2006 governmental activities revenue, came from taxes and unrestricted intergovernmental revenues (motor vehicle-in-lieu), while $121.2 million or 46% came from grants and contributions, $26.3 million, or 10%, came from charges for services, and the remainder came from a variety of sources, as shown above.

The Functional Expenses Chart above includes only current year expenses; it does not include capital outlays, which are added to the City's capital assets. As the Chart shows, general government is $25.4 million, or 19% of total government expenses, community development and planning is $11.9 million, or 9%, public works is $33.5 million, or 25%, police is $24.5 million, or 18%, fire is $16.4 million, or 12%, parks and recreation is $16.1 million, or 12%, and other governmental programs and functions are the remaining 5%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets summarized below.

Table 2
Changes in Governmental Net Assets
June 30
(in Millions)

	Governmental Activities	
	2006	2005
Expenses		
General Government	$25.4	$22.4
Community Development and Planning	11.9	10.1
Public Works	33.5	39.4
Police	24.5	22.8
Fire	16.4	15.2
Library	3.2	3.0
Parks and Recreation	16.1	14.0
Payments Under Developer Agreements	0.0	3.1
Housing Assistance Payments	3.0	3.0
Interest on Long Term Debt	1.9	1.8
Total Expenses	**135.9**	**134.8**
Revenues		
Program Revenues:		
Charges for Services	26.3	21.5
Operating Grants and Contributions	7.7	9.5
Capital Grants and Contributions	113.5	41.1
Total Program Revenues	**147.5**	**72.1**
General Revenues:		
Taxes/Intergovernmental	82.2	76.0
Use of Money and Property	8.1	5.6
Miscellaneous	1.7	0.7
Gain on Sale of Property	2.7	
Total General Revenues	**94.7**	**82.3**
Total Revenues	**242.2**	**154.4**
Changes in Net Assets before Transfers	**106.3**	**19.6**
Transfers	23.6	17.3
Change in Net Assets	**$129.9**	**$36.9**

As the Sources of Revenue Chart and **Table 2** above show, $147.5 million, or 60.9% of the City's fiscal year 2006 governmental revenue, came from program revenues and $94.7 million, or 39.1%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of $26.3 million that include permit revenues, fees, and charges used to fund expenses incurred in providing services; $7.7 million of operating grants and contributions which include gas tax revenues, housing, and police grants; and capital grants and contributions of $113.5 million that consist mainly of street project grants, developer impact fees restricted to capital outlay and contributions from community facilities districts to be used to build infrastructure in those districts.

General Revenues-Taxes/Intergovernmental showed an increase of $6.2 million. The majority of this increase was due to property and sales taxes. General revenues are not allocable to programs and are used to pay the net cost of governmental programs.

Table 3 presents the net (expense) or revenue of each of the City's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

Table 3
Governmental Activities
June 30
(in Millions)

	Net (Expense)/Revenues from Services	
	2006	2005
General Government	($19.9)	($18.7)
Community Development and Planning	(6.1)	(4.6)
Public Works	(14.7)	(6.8)
Police	(21.3)	(19.7)
Fire	(13.6)	(11.7)
Library	(2.9)	(2.7)
Parks and Recreation	(4.6)	(2.2)
Community Facilities Districts	96.3	8.2
Payments Under Developer Agreements	0.0	(3.1)
Housing Assistance Payments	0.4	0.4
Interest on Long Term Debt	(1.9)	(1.8)
Totals	**$11.7**	**($62.7)**

Business-type Activities

The Statement of Net Assets and Statement of Activities present a summary of the City's Business-type Activities that are composed of the City's enterprise funds.

Table 4
Business-Type Net Assets at June 30
(in Millions)

	2006	2005
Cash and Investments	$308.5	$383.5
Other Assets	158.2	156.5
Capital Assets	1,156.4	1,008.5
Total Assets	**1,623.1**	**1,548.5**
Long-Term Debt Outstanding	390.8	399.9
Other Liabilities	85.3	54.4
Total Liabilities	**476.1**	**454.3**
Net Assets:		
Invested in Capital Assets, Net of Debt	838.4	767.6
Restricted	28.2	31.0
Unrestricted	280.4	295.6
Total Net Assets	**$1,147.0**	**$1,094.2**

The net assets of business-type activities increased to $1.147 billion in fiscal year 2006, an increase of $53 million. Cash and investments decreased $75 million, due to increased expenditures for capital projects; and correspondingly, capital assets have increased $147.9 million. Other liabilities increased $30.9 million, which includes increases of $14.8 million for deposits, $10.1 million in unearned revenue, and $6.2 million in accounts payable.

Table 5
Changes in Business-Type Net Assets
June 30
(in Millions)

	Business-Type Activities	
	2006	2005
Expenses		
Electric Fund	$97.1	$93.1
Water Fund	18.5	16.7
Wastewater Fund	27.2	23.9
Solid Waste Fund	14.2	12.7
Golf Course Fund	2.5	2.5
Local Transportation Fund	4.4	4.1
School-Age Child Care Fund	4.5	4.2
Total Expenses	**168.4**	**157.2**
Revenues		
Program Revenues		
Charges for Services	161.0	151.0
Operating Grants and Contributions	2.3	7.0
Capital Grants and Contributions	68.9	49.8
Total Program Revenues	**232.2**	**207.8**
General Revenues		
Use of Property and Money	10.6	4.5
Total Revenues	**242.8**	**212.3**
Change in Net Assets before Special Items and Transfers	**74.4**	**55.1**
Provision for Disputed SCS Charges	0.0	0.4
Miscellaneous revenues	1.8	
Transfers	(23.6)	(17.3)
Changes in Net Assets	**$52.6**	**$38.2**

Business-type program revenues, interest revenue, and miscellaneous revenues were $244.6 million while Business-type expenses and transfers were $192 million 2006. Each program is discussed in the Proprietary Funds section below.

Table 6 summarizes the financial activity of the business-type programs, the detail of which is discussed under the Proprietary Funds section below.

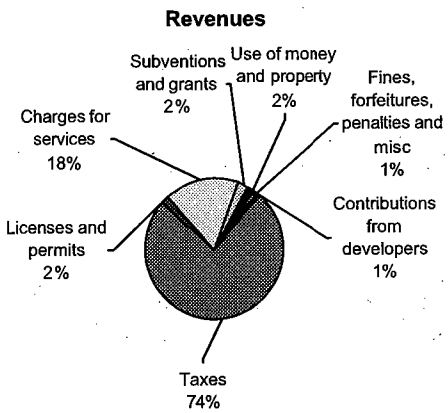
Table 6
Changes in Business-Type Net Assets
(in Millions)

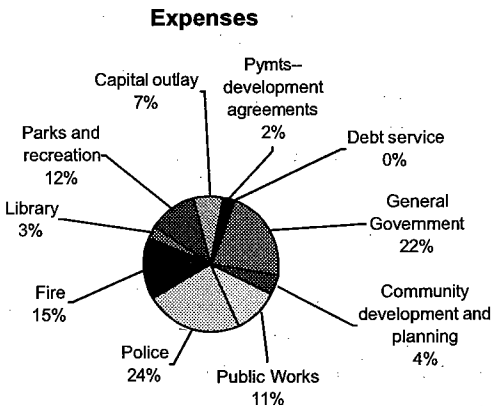
	Net (Expense)/Revenues From Services 2006	2005
Electric Fund	$22.1	$13.3
Water Fund	27.0	18.6
Wastewater Fund	13.6	13.3
Solid Waste Fund	3.3	2.7
Golf Course Fund	0.3	0.1
Local Transportation Fund	(3.1)	2.4
School-Age Child Care Fund	0.6	0.2
Totals	**$63.8**	**$50.6**

Analyses of Major Governmental Funds

General Fund

Fiscal Year 2006 General Fund Activity





General Fund revenues increased $12.4 million this fiscal year due primarily to increases in taxes, charges for services, and proceeds from the sale of property. Actual revenues were less than budgeted amounts by $2.2 million, with licenses and permits and charges for services coming in under budget, as new home construction slowed down, but taxes came in greater than targeted. Taxes increased in both property and sales taxes ($4.3 million and $1.7 million, respectively). Property taxes' assessed valuations rose 16.9%, driven by prior years' construction, which are now on the tax rolls. Sales tax revenues increased across the board, as sales increases were reported in all major sectors resulting in part from continued addition of new retail stores surrounding the Galleria regional mall and the Highway 65 corridor.

General Fund expenditures were $109.9 million, an increase of $19.9 million from the prior year. Expenditures were $31 million less than budget however, as most departments expended less than budgeted. The original budget was increased by $5.2 million from encumbrances carried over from fiscal year 2005. The sources of these budget savings included planning, public works, and central services which had delays in professional services; police, public works, and parks and recreation which had savings in salaries with salaries being budgeted at the top step; vacancies; and projects anticipated for 2006 that have been carried over to fiscal year 2007.

Other financing sources and uses reported net inflows of $16.1 million in fiscal year 2006, which is comparable to the prior year

As of June 30, 2006, the General Fund's fund balance totaled $64.3 million, including $16.7 million reserved almost entirely for encumbrances and advances to other funds, $12.1 million designated for economic reserve and capital improvements and $35.5 million in unreserved, undesignated balances. Only the unreserved portion of fund balance represents available liquid resources, since the reserved portion is represented by non-cash assets or by open purchase orders. The designated portion of fund balance has been set aside by City Council, which may alter or reverse its decisions with respect to designated fund balances at any time.

Redevelopment Agency of the City of Roseville

This Fund accounts for the Redevelopment (RDA) activity including capital projects in the downtown redevelopment area funded by tax allocation bonds. The majority of the bond proceeds from the 2003 tax allocation bonds remain unspent. In addition the RDA owes other City funds $13.5 million, which will be repaid from future tax increment revenues.

Community Facilities District Projects

This Fund accounts for capital expenditures on community facilities districts in the City. The purpose of these districts is to finance the construction of capital improvements within the boundaries of each district, through the contribution of Mello-Roos bond proceeds. The improvements are contributed to the City, which in turn acquires and pays for these facilities from the developers who actually construct the improvements. In fiscal year 2006, the Fund received $92.6 million in such contributions from property-owners and developers, and expended $66.3 million in capital outlay on facilities in community facilities districts. The largest projects underway in fiscal year 2006 were improvements to the West Roseville area.

Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

Proprietary Funds

Electric Fund

Net assets of the Electric Fund increased $20.1 million in fiscal year 2006 to a total of $275.2 million. Operating income for fiscal year 2006 is $12.2 million, an increase of $3.4 million from 2005. Electric retail sales increased by $9.5 million in 2006, however, sale of wholesale power decreased by $5.7 million, due to the termination of a swap agreement from 2005. Rates are anticipated to be increased in fiscal years 2007 and 2008.

Of the fund's Net Assets of $275.2 million, $156.5 million was invested in capital assets, $17.3 million was restricted and $101.4 million was unrestricted.

Water Fund

Net assets of the Water Fund increased $25.8 million in fiscal year 2006. There continued to be an operating loss; this year the loss was $3.7 million. Operating revenues increased only slightly to a total of $13.5 million in fiscal year 2006, while expenses increased $1.5 million to a total of $17.1 million. The increased operating expenses were primarily due to fully implementing new programs such as water conservation. Rates are anticipated to be increased in fiscal years 2007 and 2008. However, capital connection fees were $9.4 million (a decrease of $0.9 million, as growth has stabilized), and contributions from developers were $20.7 million in fiscal year 2006, an increase of $9.6 million, while net transfers out were $3.1 million.

As of June 30, 2006, the Fund's Net Assets were $371.3 million, of which $316.1 million was invested in capital assets, $2.6 million was restricted for debt service and $52.5 million was unrestricted as to use.

Wastewater Fund

Operating revenues increased in fiscal year 2006 $2.7 million to a total of $19 million. Operating expenses increased to $23.7 million, up $3 million. The net result was an operating loss of $4.7 million, of which $9.3 million was depreciation. Rates are anticipated to be increased in fiscal years 2007 and 2008. Other items that affected net assets were: connection fees of $5.7 million (down $1.1 million as growth has stabilized); capital contributions of $11.8 million and $1.5 million, respectively, from developers and South Placer Wastewater Authority; and net transfers out of $4.1 million. The total increase to net assets was $9.7 million for fiscal year 2006 to a total of $475.7 million. As of June 30, 2006, of the Fund's Net Assets, $345 million was invested in capital assets, and $130.7 million was unrestricted.

Solid Waste Fund

Revenues increased $2.4 million to $17.6 million and expenses increased $1.5 million to $14.2 million in fiscal year 2006. As a result, net operating income increased by $0.8 million to $3.3 million. Rates are anticipated to be increased in fiscal years 2007 and 2008. Net transfers out were $3.9 million. The total net assets from 2005 were $2.4 and with a slight decrease of $0.3 million; the ending balance for 2006 was $2.1 million.

Golf Course Fund

Revenues and expenses remained relatively flat in fiscal year 2006 at $2.7 million and $2.2 million, respectively. As a result, the Fund's net assets were stable at $8.3 million. The Fund is financed in part by advances from other City funds; as a result, it has a deficit in its unrestricted net assets, partially offsetting the $10.0 million it has invested in capital assets, net of the related debt.

Local Transportation Fund

Net assets of the Fund decreased $3.1 million in fiscal year 2006 to a total of $13.5 million. There was a $3.8 million operating loss in fiscal year 2006, and most of the subsidies were deferred for future projects. As of June 30, 2006, the Fund's Net Assets were $13.5 million, of which $5.9 million was invested in capital assets and $7.6 million was restricted for use in local transportation.

School-Age Child Care Fund

Net assets of the Fund remained relatively flat with a slight increase of $0.3 million in fiscal year 2006 to a total of $0.88 million. Since both revenues and expenses were up $0.4 million, the decline in net assets was due in part to additional transfers out for indirect costs. As of June 30, 2006, the Fund's Net Assets were $0.88 million. $0.96 million were invested in capital assets, which leaves a negative $0.08 million in unrestricted net assets.

CAPITAL ASSETS

In fiscal year 2002, the City started recording the cost of its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 7 below:

Table 7
Capital Assets at Year End
(in Millions)

	Balance at June 30, 2006	Balance at June 30, 2005
Governmental Activities		
Land	$ 22.6	$ 22.1
Streets (modified)	166.9	159.3
Parks (modified)	60.3	54.4
Landscaping (modified)	29.1	24.6
Construction in Progress	126.8	63.4
Buildings	79.9	79.9
Improvements	4.7	4.2
Equipment	52.6	43.9
Bike Paths	7.2	7.2
Bridges	46.6	45.6
Culverts	18.9	18.9
Curb, Gutter, Sidewalk, & Median Curbs	120.7	118.2
Drain Inlets	18.9	18.2
Flood Control Improvements	17.3	15.5
Soundwall	21.4	18.3
Stormdrains	51.3	49.4
Traffic Signals	18.9	18.6
Less: Accumulated Depreciation	(175.7)	(161.3)
Governmental Activity Capital Assets, Net	**$688.4**	**$600.4**

	Balance at June 30, 2006	Balance at June 30, 2005
Business-Type Activities		
Land	$ 16.1	$ 16.1
Landscaping (modified)	0.6	0.6
Construction in Progress	163.4	70.1
Buildings	12.0	11.8
Improvements	11.0	10.7
Machinery and Equipment	16.2	15.2
Bike Paths	1.1	1.1
Plant and Substations	283.3	270.9
Distribution	846.5	785.2
Less: Accumulated Depreciation	(193.8)	(173.2)
Business-Type Activity Capital Assets, Net	**$1,156.4**	**$1,008.5**

Detail on capital assets, current year additions and construction in progress can be found in Note 8.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB 34, except for streets, parks and landscaping, which are reported using the Modified Approach allowed under GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 8 to the financial statements. The Modified Approach requires the City to employ an asset management system that maintains a current inventory of these assets, estimates annual costs to maintain them, and assesses the condition of the assets in a replicable way.

The City uses a computerized Pavement Management System to track the condition levels of each of the street sections. The City has adopted a policy of maintaining arterial and collector roadways at an average Pavement Quality Index (PQI) of 7.5 and residential roadways at an average PQI of 6.5, which means that, on average, the City's streets must be maintained at no less than 70% of pavement in perfect condition.

At June 30, 2006, the City's streets averaged 7.5 PQI for arterial and collector roadways and 7.9 PQI for residential roadways. The City expended $7.2 million on preservation of its streets in fiscal year 2006, compared to the budgeted amount of $7.8, and plans to spend $5.5 million in fiscal year 2007.

The City uses a computerized Grounds Management System to track the condition levels of each of the parks and landscaping. The City has adopted a policy of maintaining parks and landscaping at an average Ground Management Index (GMI) of Level 2, which means that, on average, the City's parks and landscaping must be maintained at no less than 83% of parks and landscaping maintained at a state-of-the-art level.

At June 30, 2006, the City's parks and landscaping averaged 2 GMI. The City expended $4.3 million on preservation of its parks and landscaping in fiscal year 2006, compared to the $4.6 budgeted, and plans to spend $5.1 million in fiscal year 2007.

DEBT ADMINISTRATION

The City made all scheduled repayments of existing debt. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. As of June 30, the City's debt comprised:

Table 8
Outstanding Debt
(in Millions)

	Balance at June 30, 2006	Balance at June 30, 2005
Governmental Activity Debt:		
Certificates of Participation:		
2003 Public Facilities Bond, 2.0%-5.0%, due 8/1/25	$17.11	$17.71
Tax Allocation Bonds		
2002 Roseville Redevelopment Project 3%-5.14% due 9/1/33	13.74	13.96
Installment Purchase Obligations		
Equipment	2.4	0.31
Other Long Term Obligations:		
Foothill Blvd. Extension, due 4/1/07	nil	nil
Total Governmental Activity Debt:	**$33.3**	**$31.98**

	Balance at June 30, 2006	Balance at June 30, 2005
Business-type Activity Debt:		
Certificates of Participation:		
1997 Electric System Revenue, 3,6%-5.25%, due 2/1/17	$ 0.33	$ 0.63
1999 Electric System Revenue, 4.0%-5.5%, due 2/1/24	1.63	2.14
2002 Electric System Revenue, Variable Rate, due 2/1/24	25.62	30.98
Less deferred amount on refunding	(3.09)	(3.26)
2004 Electric System Revenue, 3.0-5.25%, due 2/1/34	39.94	39.94
2005 Electric System Revenue, Series A, 3.0-5.0%, due 2/1/23	52.90	52.90
2005 Electric System Revenue, Series B, Variable Rate, due 2/1/35	90.00	90.00
2005 Electric System Revenue, Series C, Variable Rate, due 2/1/35	60.00	60.00
2003 Golf Course Project, 2.0-5.0%, due 8/1/23	7.63	7.94
1997 Water Utility Revenue, 3.9%-5.2%, due 12/1/18	24.74	26.08
Total Certificates of Participation	**299.70**	**307.35**
Revenue Bonds:		
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/27	7.59	8.92
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	37.92	37.92
2003 Wastewater Refunding Revenue Bonds, variable rate, due 11/1/27	51.01	51.35
Less deferred amount on refunding	(5.54)	(5.80)
Total Revenue Bonds	**90.98**	**92.39**
Other Long Term Obligations:		
Notes, 5%, due 10/1/17	0.17	0.18
Total Business-type Activity Debt:	**$390.85**	**$399.92**

COMMUNITY FACILITIES/ASSESSMENT DISTRICTS DEBT

Community facilities districts and assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts. As of June 30, 2006, a total of $331.4 million in community facilities district and assessment district debt was outstanding, representing fifteen issues by community facilities districts and two issues by assessment districts. This debt is secured only by special tax liens and assessments on the real property in the district issuing the debt and is not the City's responsibility; however, the City does act as the agent in the collection and remittance of special taxes and assessments for these Districts. Further detail on this debt may be found in Note 10 to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Roseville at 311 Vernon Street, Roseville, California, 95678.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

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CITY OF ROSEVILLE

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The purpose of the Statement of Net Assets and the Statement of Activities is to summarize the entire City's financial activities and financial position.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets and summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities and any portion of the Internal Service Fund balances that service Enterprise Funds. Fiduciary activity is excluded.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

Both these Statements include the financial activities of the City, the Redevelopment Agency of the City of Roseville, the Roseville Finance Authority, and the City of Roseville Housing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities.

CITY OF ROSEVILLE
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments in City Treasury (Note 3)	$246,807,027	$159,287,269	$406,094,296
Restricted cash and investments with fiscal agents (Note 3)	51,692,894	149,186,807	200,879,701
Receivables:			
Taxes	1,381,329	32,934	1,414,263
Accounts	4,610,641	21,165,317	25,775,958
Accrued interest	2,114,757	1,500,419	3,615,176
Due from other government agencies	8,787,876	1,754,764	10,542,640
Internal balances (Note 4D)	4,215,249	(4,215,249)	
Prepaids	757,932		757,932
Deferred receivables (Note 6)	2,124,839	684,266	2,809,105
Notes receivable (Note 5)	10,319,915		10,319,915
Notes receivable from NCPA (Note 15B)		192,879	192,879
Inventories (Note 1I)	1,375,688	7,873,983	9,249,671
Land held for redevelopment (Note 7D)	1,002,290		1,002,290
Prepaid purchased electricity (Note 14)		4,584,532	4,584,532
Unamortized bond origination costs		1,416,235	1,416,235
Investment in NCPA reserves (Note 15)		12,008,493	12,008,493
Investment in SPWA reserves (Note 16)		111,170,459	111,170,459
Capital assets (Note 8):			
Land and construction in progress	405,667,898	180,087,255	585,755,153
Capital assets being depreciated, net	282,726,110	976,333,504	1,259,059,614
Total assets	1,023,584,445	1,623,063,867	2,646,648,312
LIABILITIES			
Accounts payable	33,128,264	20,825,023	53,953,287
Accrued liabilities	2,632,887	3,470,115	6,103,002
Due to other governments	6,919,772	1,026,740	7,946,512
Deposits	6,665,778	37,990,156	44,655,934
Unearned revenues	1,627,451	13,035,472	14,662,923
Deferred liabilities		125,242	125,242
Landfill closure and post closure liability (Note 17)		3,678,093	3,678,093
Compensated absences (Note 1G):			
Due within one year	274,852	2,609,247	2,884,099
Due in more than one year	7,320,098	2,504,737	9,824,835
Self-insurance claims payable and litigation settlement (Note 13)	8,470,000		8,470,000
Long term liabilities (Note 9):			
Due within one year	1,149,638	4,872,793	6,022,431
Due in more than one year	32,130,571	385,974,107	418,104,678
Total liabilities	100,319,311	476,111,725	576,431,036
NET ASSETS (Note 11)			
Invested in capital assets, net of related debt	664,131,414	838,373,690	1,502,505,104
Restricted for:			
Capital projects:			
Expendable	127,280,639		127,280,639
Nonexpendable	16,425,999		16,425,999
Debt service	1,345,398	20,555,663	21,901,061
Community development projects	4,686,005		4,686,005
Local transportation		7,623,283	7,623,283
Total restricted net assets	149,738,041	28,178,946	177,916,987
Unrestricted net assets	109,395,679	280,399,506	389,795,185
Total net assets	$923,265,134	$1,146,952,142	$2,070,217,276

See accompanying notes to financial statements

CITY OF ROSEVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$25,437,535	$3,364,921	$120,778	$2,032,357	($19,919,479)		($19,919,479)
Community development and planning	11,893,312	4,312,464	1,077,687	397,946	(6,105,215)		(6,105,215)
Public works	33,498,385	7,959,770	103,747	10,728,483	(14,706,385)		(14,706,385)
Police	24,500,396	1,900,144	1,251,680		(21,348,572)		(21,348,572)
Fire	16,435,774	1,253,881	499,198	1,100,053	(13,582,642)		(13,582,642)
Library	3,156,087	188,738	110,374		(2,856,975)		(2,856,975)
Parks and recreation	16,052,655	7,315,217	1,127,288	2,989,114	(4,621,036)		(4,621,036)
Community facilities districts				96,283,453	96,283,453		96,283,453
Housing assistance payments	2,974,236		3,426,751		452,515		452,515
Interest on long term debt	1,933,654				(1,933,654)		(1,933,654)
Total Governmental Activities	135,882,034	26,295,135	7,717,503	113,531,406	11,662,010		11,662,010
Business-type Activities:							
Electric	97,101,941	102,772,594		16,419,999		$22,090,652	22,090,652
Water	18,510,040	13,450,264	2,019,853	30,055,261		27,015,338	27,015,338
Wastewater	27,207,717	19,025,742		21,786,854		13,604,879	13,604,879
Solid Waste	14,220,731	17,558,492	26,489			3,364,250	3,364,250
Golf Course	2,479,378	2,747,851				268,473	268,473
Local Transportation	4,415,411	601,087	32,003	652,854		(3,129,467)	(3,129,467)
School-age Child Care	4,430,801	4,833,884	220,844			623,927	623,927
Total Business-type Activities	168,366,019	160,989,914	2,299,189	68,914,968		63,838,052	63,838,052
Total	$304,248,053	$187,285,049	$10,016,692	$182,446,374	11,662,010	63,838,052	75,500,062
General revenues:							
Taxes:							
Property taxes					30,867,256		30,867,256
Sales taxes					42,642,034		42,642,034
Franchise taxes					1,267,707		1,267,707
Motor fuel taxes					3,116,638		3,116,638
Other taxes					3,630,534		3,630,534
Intergovernmental, unrestricted:							
Motor vehicle in lieu					710,510		710,510
Use of money and property					8,077,599	10,559,581	18,637,180
Miscellaneous revenues					1,680,851	1,825,199	3,506,050
Gain on sales of property					2,703,738		2,703,738
Transfers (Note 4)					23,582,576	(23,582,576)	
Total general revenues and transfers					118,279,443	(11,197,796)	107,081,647
Change in Net Assets					129,941,453	52,640,256	182,581,709
Net Assets-Beginning					793,323,681	1,094,311,886	1,887,635,567
Net assets-Ending					$923,265,134	$1,146,952,142	$2,070,217,276

See accompanying notes to financial statements

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MAJOR GOVERNMENTAL FUNDS

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FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City in fiscal 2006. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

REDEVELOPMENT AGENCY

The Redevelopment Agency Fund accounts for all activities of the Agency, including 1) tax increment allocations set aside for the purpose of increasing or improving housing for low-income residents; 2) the accumulation of property taxes for payment of interest and principal on the Redevelopment Agency tax allocation bonds issued in 2003; 3) capital projects connected with downtown redevelopment funded by property tax increment revenues.

COMMUNITY FACILITIES DISTRICT PROJECTS FUND

This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

CITY OF ROSEVILLE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General	Redevelopment Agency of the City of Roseville	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments in City Treasury (Note 3)	$52,082,481	$7,046,498	$13,509,577	$120,624,401	$193,262,957
Restricted cash and investments with fiscal agents (Note 3)		9,993,292	38,067,255	3,592,347	51,652,894
Receivables:					
Taxes	1,381,329				1,381,329
Accounts	3,961,654			640,679	4,602,333
Accrued interest	1,689,090	79,295	215,694	1,430,544	3,414,623
Due from other government agencies	6,729,965	25,256		2,011,171	8,766,392
Due from other funds (Note 4B)	1,297,351			50,000	1,347,351
Advances to other funds (Note 4C)	8,595,536			4,100,000	12,695,536
Prepaids	137,408				137,408
Deferred receivables (Note 6)				2,124,839	2,124,839
Notes receivable (Note 5)	104,846	1,923,079		8,291,990	10,319,915
Inventories (Note 1I)	498,894				498,894
Land held for redevelopment		1,002,290			1,002,290
Total Assets	$76,478,554	$20,069,710	$51,792,526	$142,865,971	$291,206,761
LIABILITIES					
Accounts payable	$3,210,488	$831,375	$23,423,446	$5,004,477	$32,469,786
Accrued liabilities	1,415,420	520,270		147,865	2,083,555
Due to other funds (Note 4B)		800,000		336,740	1,136,740
Due to other government agencies	19,035			6,900,737	6,919,772
Compensated absences (Note 1G)	126,909				126,909
Advances from other funds (Note 4C)		13,524,737		212,500	13,737,237
Deposits	6,065,778			600,000	6,665,778
Deferred revenue	1,328,486	1,923,079		3,986,105	7,237,670
Deferred liabilities		2,368,988		272,255	2,641,243
Total Liabilities	12,166,116	19,968,449	23,423,446	17,460,679	73,018,690
FUND BALANCES (Note 11)					
Reserved for:					
Advances	8,595,536			4,100,000	12,695,536
Inventories	498,894				498,894
Encumbrances	7,333,064			6,869,617	14,202,681
Capital projects			28,369,080		28,369,080
Deferred receivables and notes receivable	104,846			26,992	131,838
Prepaids	137,408				137,408
Low and moderate income housing		2,443,917			2,443,917
Debt service		10,039,564		1,345,398	11,384,962
Unreserved:					
Designated for economic reserve	11,025,100				11,025,100
Reported in Capital Projects Funds:					
Designated for carryover of capital improvement projects	1,085,289			19,807,821	20,893,110
Unreserved, undesignated, reported in:					
General Fund	35,532,301				35,532,301
Special Revenue Funds		(12,382,220)		76,829,465	64,447,245
Permanent Funds				16,425,999	16,425,999
TOTAL FUND BALANCES	64,312,438	101,261	28,369,080	125,405,292	218,188,071
Total Liabilities and Fund Balances	$76,478,554	$20,069,710	$51,792,526	$142,865,971	$291,206,761

See accompanying notes to financial statements

CITY OF ROSEVILLE
Reconciliation of
GOVERNMENTAL FUNDS -- FUND BALANCE
with the Governmental Activities
NET ASSETS
JUNE 30, 2006

TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	$218,188,071
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	688,394,008
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of 'certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.	
Cash and investments	53,584,070
Accounts receivable	8,308
Interest receivable	1,341,377
Due from other government agencies	21,484
Prepaid	620,524
Inventories	876,794
Accounts payable	(658,478)
Accrued liabilities	(39,523)
Self-insurance claims payable	(8,470,000)
Compensated absences	(312,616)
Internal balances	5,046,339
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	5,610,219
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(33,280,209)
Interest payable and other accrued liabilities, included in accrued liabilities	(509,809)
Non-current portion of compensated absences	(7,155,425)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$923,265,134

See accompanying notes to financial statements

CITY OF ROSEVILLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	General	Redevelopment Agency of the City of Roseville	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$72,871,777	$5,506,123		$4,392,791	$82,770,691
Less Educational Revenue Augmentation Fund payment (Note 19)		(323,743)			(323,743)
Licenses and permits	2,020,467				2,020,467
Charges for services	17,353,831			13,941,436	31,295,267
Subventions and grants	2,004,706	56,761		8,289,814	10,351,281
Use of money and property	1,580,294	571,749	$2,320,216	3,312,716	7,784,975
Fines, forfeitures and penalties	768,638	–		1,184,767	1,953,405
Contributions from property owners			92,645,369		92,645,369
Contributions from developers	638,802	395,042	11,288	2,292,513	3,337,645
Miscellaneous revenues	3,607,125	48,316	1,306,580	2,937,547	7,899,568
Total Revenues	100,845,640	6,254,248	96,283,453	36,351,584	239,734,925
EXPENDITURES					
Current:					
General government	24,480,432			458,424	24,938,856
Community development and planning	4,784,483	2,980,943		3,122,636	10,888,062
Public works	12,035,250			3,361,446	15,396,696
Public safety:					
Police	25,567,869				25,567,869
Fire	16,297,463			617,930	16,915,393
Library	3,129,784			3,583	3,133,367
Parks and recreation	13,220,014			2,787,363	16,007,377
Housing assistance payments				2,974,236	2,974,236
Capital outlay	7,627,571	3,290,860	66,327,795	31,068,558	108,314,784
Payments under development agreements (Note 7)	2,592,039				2,592,039
Debt service					
Principal retirement	111,946	225,000		605,000	941,946
Interest and fiscal charges	23,472	1,205,253		712,277	1,941,002
Total Expenditures	109,870,323	7,702,056	66,327,795	45,711,453	229,611,627
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,024,683)	(1,447,808)	29,955,658	(9,359,869)	10,123,298
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of property	3,357,188	146,279			3,503,467
Proceeds from capital lease (Note 9)				2,239,765	2,239,765
Transfers in (Note 4A)	21,206,973	940,000	200,000	16,092,185	38,439,158
Transfers (out) (Note 4A)	(8,464,833)	(253,440)	(958,422)	(11,130,142)	(20,806,837)
Total Other Financing Sources (Uses)	16,099,328	832,839	(758,422)	7,201,808	23,375,553
NET CHANGE IN FUND BALANCES	7,074,645	(614,969)	29,197,236	(2,158,061)	33,498,851
Fund balances at beginning of period	57,237,793	716,230	(828,156)	127,563,353	184,689,220
FUND BALANCES AT END OF PERIOD	$64,312,438	$101,261	$28,369,080	$125,405,292	$218,188,071

npanying notes to financial statements

CITY OF ROSEVILLE

Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$33,498,851
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance	103,685,200
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $3,598,624 which has already been allocated to serviced funds.)	(11,556,350)
Loss on retirement of capital assets (Internal service fund retirement of $8,747 has already been deducted from capital assets)	(6,205,451)
Transfer of assets to Business-Type Activities	(276,329)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Proceeds from the issuance of debt and capital assets are deducted from fund balance	(2,239,765)
Repayment of debt principal is added back to fund balance	941,946
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Long-term compensated absences	3,393,971
Interest payable and accrued liabilities, included in accrued liabilities	7,348
Deferred revenues	90,248
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	8,601,784
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$129,941,453

See accompanying notes to financial statements

CITY OF ROSEVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES				
Taxes	$68,894,665	$71,170,200	$72,871,777	$1,701,577
Licenses and permits	4,943,460	4,943,460	2,020,467	(2,922,993)
Charges for services	11,867,159	19,195,545	17,353,831	(1,841,714)
Subventions and grants	994,875	1,671,518	2,004,706	333,188
Use of money and property	1,121,165	1,131,165	1,580,294	449,129
Fines, forfeitures and penalties	511,000	511,000	768,638	257,638
Contributions from developers	1,188,000	1,513,000	638,802	(874,198)
Miscellaneous revenues	1,330,000	2,905,245	3,607,125	701,880
TOTAL REVENUES	90,850,324	103,041,133	100,845,640	(2,195,493)
EXPENDITURES				
Current:				
General government				
Council				
Salaries and benefits	38,630	38,630	35,990	2,640
Operating services and supplies	392,671	450,954	275,570	175,384
City attorney				
Salaries and benefits	1,177,460	1,145,090	1,144,731	359
Operating services and supplies	220,559	220,559	218,900	1,659
City manager				
Salaries and benefits	1,525,700	1,502,900	1,452,226	50,674
Operating services and supplies	406,246	438,723	366,501	72,222
Finance				
Salaries and benefits	5,147,441	5,137,151	4,810,554	326,597
Operating services and supplies	2,172,545	3,252,545	2,307,851	944,694
Human resources				
Salaries and benefits	1,535,070	1,501,920	1,453,679	48,241
Operating services and supplies	619,686	655,436	584,922	70,514
Information technology				
Salaries and benefits	3,192,010	3,192,010	3,166,791	25,219
Operating services and supplies	2,028,288	2,099,388	1,528,058	571,330
City clerk				
Salaries and benefits	586,150	586,150	536,120	50,030
Operating services and supplies	185,590	185,590	79,574	106,016
Economic Development				
Salaries and benefits	205,550	246,550	239,029	7,521
Operating services and supplies	153,238	201,688	161,893	39,795
Central services				
Salaries and benefits	3,089,320	3,089,320	2,900,948	188,372
Operating services and supplies	3,862,235	4,222,703	3,217,095	1,005,608
Community development and planning				
Housing				
Salaries and benefits	167,370	167,370	188,642	(21,272)
Operating services and supplies	117,809	117,809	103,814	13,995
Community development				
Salaries and benefits	1,158,080	1,199,766	1,047,502	152,264
Operating services and supplies	411,596	411,596	150,140	261,456
Planning				
Salaries and benefits	2,300,190	1,837,236	2,177,833	(340,597)
Operating services and supplies	1,689,828	5,499,339	1,116,552	4,382,787

(Continued)

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
Public works				
Salaries and benefits	10,117,892	9,983,642	8,676,220	1,307,422
Operating services and supplies	4,791,216	4,910,066	3,359,030	1,551,036
Public safety:				
Police				
Salaries and benefits	21,083,340	22,288,212	21,076,281	1,211,931
Operating services and supplies	4,597,865	4,948,319	4,491,588	456,731
Fire				
Salaries and benefits	13,902,470	14,427,658	14,365,306	62,352
Operating services and supplies	2,303,578	2,428,758	1,932,157	496,601
Library				
Salaries and benefits	2,948,440	2,948,440	2,386,485	561,955
Operating services and supplies	736,219	736,219	743,299	(7,080)
Parks and recreation				
Salaries and benefits	9,836,052	9,893,311	8,640,239	1,253,072
Operating services and supplies	4,751,144	4,778,539	4,579,775	198,764
Capital outlay	7,788,543	23,317,852	7,627,571	15,690,281
Payments under development agreements	2,558,350	2,557,600	2,592,039	(34,439)
Debt Service:				
Principal	1,550,120	241,870	111,946	129,924
Interest and fiscal charges	44,950	44,950	23,472	21,478
TOTAL EXPENDITURES	119,393,441	140,905,859	109,870,323	31,035,536
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property		2,610,000	3,357,188	747,188
Transfers in	21,564,327	23,827,327	21,206,973	(2,620,354)
Transfers (out)	(3,068,600)	(6,120,941)	(8,464,833)	(2,343,892)
Total Other Financing Sources (Uses)	18,495,727	20,316,386	16,099,328	(4,217,058)
NET CHANGE IN FUND BALANCE	($10,047,390)	($17,548,340)	7,074,645	
Fund balance at beginning of year			57,237,793	
Fund balance at end of year			$64,312,438	

See accompanying notes to financial statements

CITY OF ROSEVILLE
REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Final	
REVENUES				
Taxes	$4,513,200	$5,597,890	$5,506,123	($91,767)
Less Educational Revenue Augmentation Fund payment (Note 19)			(323,743)	(323,743)
Subventions and grants	954,730	455,900	56,761	(399,139)
Use of money and property	99,974	99,974	571,749	471,775
Contributions from developers	360,000	(33,815)	395,042	428,857
Miscellaneous revenues	16,658	45,358	48,316	2,958
Total revenues	5,944,562	6,165,307	6,254,248	88,941
EXPENDITURES				
Community development and planning				
Community services				
Salaries and benefits	388,450	395,610	378,798	16,812
Operating services and supplies	2,018,069	2,060,249	1,065,722	994,527
Pass-through payments	1,331,090	1,537,460	1,536,423	1,037
Capital outlay	11.310,903	13,703,714	3,290,860	10,412,854
Debt service:				
Principal		225,000	225,000	
Interest and fiscal charges		756,475	1,205,253	(448,778)
Total expenditures	15,048,512	18,678,508	7,702,056	10,976,452
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	75,000	456,280	146,279	(310,001)
Transfers in	2,000,360		940,000	940,000
Transfers out	(1,024,800)		(253,440)	(253,440)
Total Other Financing Sources (Uses)	1,050,560	456,280	832,839	376,559
NET CHANGE IN FUND BALANCE	($8,053,390)	($12,056,921)	(614,969)	$11,441,952
Fund balance at beginning of year			716,230	
Fund balance at end of year			$101,261	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2006.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

ELECTRIC FUND

This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

WATER FUND

This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

WASTEWATER FUND

This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

SOLID WASTE FUND

This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

GOLF COURSE FUND

This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

LOCAL TRANSPORTATION FUND

This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

SCHOOL-AGE CHILD CARE FUND

This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
ASSETS					
Current Assets:					
Cash and investments in City Treasury (Note 3)	$78,755,760	$50,322,005	$11,627,998	$2,781,190	$1,471,357
Restricted cash and investments with fiscal agents (Note 3)	145,950,098	2,612,496			624,213
Receivables:					
Taxes	32,934				
Accounts	13,142,903	3,431,103	1,893,938	2,036,859	79,379
Accrued Interest	878,779	415,728	85,780	22,092	35,363
Due from other government agencies		68,422	1,238,460	108,393	
Due from other funds (Note 4B)			197,610		
Inventories (Note 1I)	5,691,039	1,988,800	66,992	127,152	
Prepaids					
Total Current Assets	244,451,513	58,838,554	15,110,778	5,075,686	2,210,312
Noncurrent Assets:					
Deferred receivables (Note 6)	606,079	70,955	7,232		
Notes receivable from NCPA (Note 15B)	192,879				
Prepaid purchased electricity (Note 14)	4,584,532				
Unamortized bond origination costs	597,196	550,186			268,853
Investment in NCPA reserves (Note 15)	12,008,493				
Investment in SPWA reserves (Note 16)			111,170,459		
Advances to other funds (Note 4C)			1,545,390		
Capital assets (Note 8):					
Land and construction in progress	148,684,569	15,653,841	7,966,242	409,632	6,007,666
Capital assets being depreciated, net	196,961,979	325,216,082	433,597,588	3,436,132	11,640,654
Total Noncurrent Assets	363,635,727	341,491,064	554,286,911	3,845,764	17,917,173
Total Assets	608,087,240	400,329,618	569,397,689	8,921,450	20,127,485
LIABILITIES					
Current Liabilities					
Accounts payable	16,457,123	2,680,509	410,069	699,490	149,148
Accrued liabilities	2,557,436	358,747	210,994	123,884	125,902
Due to other government agencies	79,554		947,186		
Due to other funds (Note 4B)				197,610	127,000
Current portion of compensated absences (Note 1G)	1,047,855	507,286	578,009	245,481	
Current portion of long-term debt (Note 9)	1,400,000	1,405,810	1,746,983		320,000
Deposits	37,919,147	48,000			10,322
Unearned revenue	6,455,973				
Self-insurance claims payable (Note 13)					
Total Current Liabilities	65,917,088	5,000,352	3,893,241	1,266,465	732,372
Long-Term Liabilities					
Deferred liabilities				108,192	
Advances from other funds (Note 4C)				1,545,390	3,766,000
Notes (Note 9)		161,246			
Certificates of participation (Note 9)	269,020,000	23,345,000			7,310,000
Unamortized loss on refunding (Note 9)	(3,093,118)		(5,542,144)		
Revenue bonds (Note 9)			94,773,123		
Landfill closure and post closure liability (Note 17)				3,678,093	
Compensated absences (Note 1G)	1,054,130	548,111	545,767	266,450	
Total Long-Term Liabilities	266,981,012	24,054,357	89,776,746	5,598,125	11,076,000
Total Liabilities	332,898,100	29,054,709	93,669,987	6,864,590	11,808,372
NET ASSETS					
Invested in capital assets, net of related debt	156,500,395	316,119,113	345,043,724	3,845,764	10,018,320
Restricted for debt service	17,319,323	2,612,320			624,020
Restricted for local transportation					
Unrestricted	101,369,422	52,543,476	130,683,978	(1,788,904)	(2,323,227)
Total Net Assets	$275,189,140	$371,274,909	$475,727,702	$2,056,860	$8,319,113

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$13,990,183	$338,776	$159,287,269	$53,544,070
		149,186,807	40,000
		32,934	
12,687	568,448	21,165,317	8,308
60,056	2,621	1,500,419	1,341,377
313,900	25,589	1,754,764	21,484
		197,610	339,500
		7,873,983	876,794
			620,524
14,376,826	935,434	340,999,103	56,792,057
		684,266	
		192,879	
		4,584,532	
		1,416,235	
		12,008,493	
		111,170,459	
		1,545,390	5,107,701
921,979	443,326	180,087,255	
4,961,721	519,348	976,333,504	13,869,030
5,883,700	962,674	1,288,023,013	18,976,731
20,260,526	1,898,108	1,629,022,116	75,768,788
378,528	50,156	20,825,023	658,478
14,920	78,232	3,470,115	39,523
		1,026,740	
	22,249	346,859	400,862
49,055	181,561	2,609,247	147,943
		4,872,793	
90	12,597	37,990,156	
6,227,486	352,013	13,035,472	
			8,470,000
6,670,079	696,808	84,176,405	9,716,806
	17,050	125,242	
	300,000	5,611,390	
		161,246	
		299,675,000	
		(8,635,262)	
		94,773,123	
		3,678,093	
83,464	6,815	2,504,737	164,673
83,464	323,865	397,893,569	164,673
6,753,543	1,020,673	482,069,974	9,881,479
5,883,700	962,674	838,373,690	13,869,030
		20,555,663	
7,623,283		7,623,283	
	(85,239)	280,399,506	52,018,279
$13,506,983	$877,435	$1,146,952,142	$65,887,309

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
OPERATING REVENUES					
Charges for services	$101,342,497	$12,382,530	$19,010,612	$17,108,946	$2,728,198
Sale of wholesale power	1,065,466				
Other	364,631	1,067,734	15,130	449,546	19,653
Total Operating Revenues	102,772,594	13,450,264	19,025,742	17,558,492	2,747,851
OPERATING EXPENSES					
Purchased power	68,658,451				
Operations	14,258,264	8,259,428	13,944,737	13,465,549	1,766,682
Administration	2,164,378	3,413,000	492,126	651,821	
Depreciation and amortization	5,456,109	5,455,952	9,275,909	103,361	407,236
Claims expense					
Total Operating Expenses	90,537,202	17,128,380	23,712,772	14,220,731	2,173,918
Operating Income (Loss)	12,235,392	(3,678,116)	(4,687,030)	3,337,761	573,933
NONOPERATING REVENUES (EXPENSES)					
Interest and rents revenue/expense	8,167,037	1,799,802	260,510	72,283	100,468
Interest and fiscal charges (expense)	(6,564,739)	(1,381,660)	(3,494,945)		(305,460)
Subventions and grants		2,019,853		26,489	
Increase (decrease) in NCPA reserves	8,923,097				
Increase (decrease) in SPWA reserves			2,762,591		
Nonoperating revenues	1,825,199				
Net Nonoperating Revenues (Expenses)	12,350,594	2,437,995	(471,844)	98,772	(204,992)
Income (Loss) Before Contributions and Transfers	24,585,986	(1,240,121)	(5,158,874)	3,436,533	368,941
Capital contributions - connection fees		9,371,034	5,714,315		
Contribution in aid of construction	3,742,557				
Capital contributions from developers	3,754,345	20,684,227	11,831,371		
Capital contributions from SPWA member agencies			1,478,577		
Transfers in (Note 4A)	9,000	1,234,522		82,676	
Transfers (out) (Note 4A)	(11,952,657)	(4,286,755)	(4,134,568)	(3,865,296)	(159,533)
Change in net assets	20,139,231	25,762,907	9,730,821	(346,087)	209,408
Total net assets-beginning	255,049,909	345,512,002	465,996,881	2,402,947	8,109,705
Total net assets-ending	$275,189,140	$371,274,909	$475,727,702	$2,056,860	$8,319,113

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$583,613	$4,831,838	$157,988,234	$19,943,861
		1,065,466	
17,474	2,046	1,936,214	447,899
601,087	4,833,884	160,989,914	20,391,760
		68,658,451	
3,143,834	4,404,620	59,243,114	12,753,371
483,094		7,204,419	
788,483	14,523	21,501,573	3,598,624
			2,717,792
4,415,411	4,419,143	156,607,557	19,069,787
(3,814,324)	414,741	4,382,357	1,321,973
161,569	(2,088)	10,559,581	1,289,649
	(11,658)	(11,758,462)	
32,003	220,844	2,299,189	14,000
		8,923,097	
		2,762,591	
		1,825,199	25,907
193,572	207,098	14,611,195	1,329,556
(3,620,752)	621,839	18,993,552	2,651,529
		15,085,349	
		3,742,557	
652,854		36,922,797	
		1,478,577	
184,157	4,240	1,514,595	6,896,645
(365,082)	(333,280)	(25,097,171)	(946,390)
(3,148,823)	292,799	52,640,256	8,601,784
16,655,806	584,636	1,094,311,886	57,285,525
$13,506,983	$877,435	$1,146,952,142	$65,887,309

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$120,766,055	$10,587,114	$18,486,764	$16,845,597	$2,723,711
Payments to suppliers	(71,055,252)	(6,101,799)	(10,026,720)	(10,364,609)	(1,668,850)
Payments to employees	(9,041,112)	(5,749,107)	(4,475,934)	(3,913,919)	
Claims paid					
Other receipts	364,631	1,067,734	15,130	449,546	19,653
Net cash provided by operating activities	41,034,322	(196,058)	3,999,240	3,016,615	1,074,514
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
(Increase) decrease in due from other funds			(197,610)		
Increase (decrease) in due to other funds				197,610	127,000
(Increase) decrease in advance to other funds			(1,545,390)		
Increase (decrease) in advances from other funds				1,545,390	(127,000)
Transfers in	9,000	1,234,522		82,676	
Transfers (out)	(11,952,657)	(4,286,755)	(4,134,568)	(3,865,296)	(159,533)
Cash Flows from Noncapital Financing Activities	(11,943,657)	(3,052,233)	(5,877,568)	(2,039,620)	(159,533)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	7,496,902	20,684,227			
Acquisition and construction of capital assets, net	(119,388,967)	(32,828,863)	60,836	(1,177,162)	
Transfer of connection fees to SPWA			(5,028,159)		
Change in restricted assets	92,188,659	(53)			(119)
Principal payments on capital debt	(6,170,000)	(1,345,295)			(315,000)
Interest paid on capital debt	(6,564,739)	(1,381,659)			(305,460)
Subventions and grants	894,057	2,023,755	3,025,430	94,263	
Connection fees		9,371,034	5,714,315		
Other	1,825,199				
Cash Flows from Capital and Related Financing Activities	(29,718,889)	(3,476,854)	3,772,422	(1,082,899)	(620,579)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	7,946,932	1,767,773	251,624	74,247	95,335
Net increase (decrease) in cash and cash equivalents	7,318,708	(4,957,372)	2,145,718	(31,657)	389,737
Cash and investments at beginning of period	71,437,052	55,279,377	9,482,280	2,812,847	1,081,620
Cash and investments at end of period	$78,755,760	$50,322,005	$11,627,998	$2,781,190	$1,471,357
NONCASH TRANSACTIONS:					
Contribution of SPWA capital assets to City			$4,256,591		
Principal retirement of SPWA Revenue Bonds			(1,676,562)		
Interest on SPWA Revenue Bonds			(3,504,143)		
Contribution of capital assets from developers			11,831,371		
Retirement of capital assets	($138,762)	($1,448,248)	(180,392)	($30,648)	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income (loss)	$12,235,392	($3,678,116)	($4,687,030)	3,337,761	$573,933
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	5,456,109	5,455,952	9,275,909	103,361	407,236
Change in assets and liabilities:					
Receivables, net	(722,903)	(1,788,416)	(519,020)	(263,349)	(3,865)
Inventories	(40,066)	(1,328,267)	4,171	(33,789)	
Prepaids					
Accounts and other payables	19,748,062	1,142,789	(74,790)	(127,369)	97,210
Deferred revenue	4,357,728				
Net cash provided by operating activities	$41,034,322	($196,058)	$3,999,240	$3,016,615	$1,074,514

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$6,325,419	$4,798,888	$180,533,548	$19,987,238
(2,991,570)	(620,843)	(102,829,643)	(11,451,611)
(578,518)	(3,909,162)	(27,667,752)	(2,064,866)
			(1,722,792)
17,474	2,046	1,936,214	447,899
2,772,805	270,929	51,972,367	5,195,868
		(197,610)	(127,000)
	(127,578)	197,032	(312,638)
		(1,545,390)	339,500
		1,418,390	
184,157	4,240	1,514,595	6,896,645
(365,082)	(333,280)	(25,097,171)	(946,390)
(180,925)	(456,618)	(23,710,154)	5,850,117
652,854		28,833,983	
(543,053)		(153,877,209)	(5,953,572)
		(5,028,159)	
		92,188,487	
		(7,830,295)	
		(8,251,858)	
9,483,277	195,886	15,716,668	
		15,085,349	
		1,825,199	25,907
9,593,078	195,886	(21,337,835)	(5,927,665)
129,577	(2,451)	10,263,037	1,170,077
12,314,535	7,746	17,187,415	6,288,397
1,675,648	331,030	142,099,854	47,295,673
$13,990,183	$338,776	$159,287,269	$53,584,070
		$4,256,591	
		(1,676,562)	
		(3,504,143)	
		11,831,371	
		(1,798,050)	
($3,814,324)	414,741	4,382,357	$1,321,973
788,483	14,523	21,501,573	3,598,624
(11,454)	(57,166)	(3,366,173)	(101,926)
		(1,397,951)	
			(620,524)
56,930	(122,158)	20,720,674	997,721
5,753,170	20,989	10,131,887	
$2,772,805	$270,929	$51,972,367	$5,195,868

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FIDUCIARY FUNDS

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FIDUCIARY FUNDS

Fiduciary funds are presented separately from the Government-wide and Fund financial statements.

Endowment Private-Purpose Trust funds are used to account for trust arrangements under which principal and income benefit private organizations.

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF ROSEVILLE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Endowment Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments in Treasury (Note 3)	$2,018,964	$178,754,986
Restricted cash and investments with fiscal agents (Note 3)		58,802,360
Accounts receivable		160,893
Accrued interest receivable	15,947	1,237,559
Due from other government agencies		2,700,026
Total Assets	2,034,911	$241,655,824
LIABILITIES		
Accounts payable	6,316	$3,294,096
Accrued liabilities		326,561
Due to other government agencies		13,014
Due to member agencies		183,135,487
Due to bondholders		54,790,488
Due to others		96,178
Total Liabilities	6,316	$241,655,824
NET ASSETS		
Held in trust for private purpose	$2,028,595	

See accompanying notes to financial statements

CITY OF ROSEVILLE
ENDOWMENT PRIVATE-PURPOSE TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

ADDITIONS	
Contributions from developers	$65,936
Investment income	49,050
Total additions	114,986
DEDUCTIONS	
Payments in accordance with trust agreements	32,774
Change in net assets	82,212
Net assets - beginning	1,946,383
Net assets - end	$2,028,595

See accompanying notes to financial statements

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NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Roseville was incorporated on April 10, 1909 under provisions of Act 279, P.A. 1909, as amended (Home Rule City). The City operates under the Council Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, water, solid waste, electric, local transportation, school-age child care, golf course, parks recreation, public improvements, planning and zoning, library, general administration services, redevelopment and housing.

The financial statements and accounting policies of the City conform with generally accepted accounting principles in the United States of America applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. This City's component units which are described below are all blended.

The **Redevelopment Agency of the City of Roseville** is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency have been included in these financial statements in the Redevelopment Agency of the City of Roseville Special Revenue Fund.

The **Roseville Finance Authority** is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital facilities within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Roseville Finance Authority Debt Service Fund and Capital Projects Fund.

The **City of Roseville Housing Authority** is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Housing Authority Section 8 Special Revenue Fund.

Financial statements for the Redevelopment Agency may be obtained from the City of Roseville at 311 Vernon Street, Roseville, California, 95678. Separate financial statements for the Roseville Finance Authority and Roseville Housing Authority are not issued.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The California Joint Powers Risk Management Authority, the Local Agency Workers' Compensation Excess Joint Powers Authority, the Roseville-Placer County Civic Center Improvement Authority, the Highway 65 Joint Powers Authority, the Disaster Recovery Joint Powers Authority, and the South Placer Wastewater Authority are not included in the accompanying basic financial statements because they do not meet the above financial accountability criteria as these entities are administered by governing boards separate from and wholly independent of the City.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government, the City and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Major Funds*

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - This is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

Redevelopment Agency - The Redevelopment Agency Fund accounts for all activities of the Agency, including 1) tax increment allocations set aside for the purpose of increasing or improving housing for low-income residents; 2) the accumulation of property taxes for payment of interest and principal on the Redevelopment Agency tax allocation bonds issued in 2003; 3) capital projects connected with downtown redevelopment funded by property tax increment revenues.

Community Facilities District Projects Fund - This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Electric Fund - This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

Water Fund - This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

Wastewater Fund - This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

Solid Waste Fund - This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

Golf Course Fund – This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

Local Transportation Fund – This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

School-age Child Care Fund – This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

The City also reports the following fund types:

Internal Service Funds. The funds account for automotive services, automotive replacement, worker's compensation, general liability, unemployment reserve, vision, dental, section 125, post retirement, and central stores; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds. The Endowment Private-Purpose Trust Fund and the Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and private-purpose trust fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred,* regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources.*

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, certain charges for services and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. Revenue Recognition For Electric, Water, Sewer, and Garbage Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There are twenty billing cycles per month which include all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

F. Property Tax

Placer County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the county, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. Compensated Absences

Compensated absences comprise unused vacation leave, vested sick pay and certain compensated time off, which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long term portion is recorded in the Statement of Net Assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$11,133,428	$5,206,618	$16,340,046
Additions	(3,411,566)	(25,719)	(3,437,285)
Payments	(126,912)	(66,915)	(193,827)
Ending Balance	$7,594,950	$5,113,984	$12,708,934
Current Portion	$274,852	$2,609,247	$2,884,099

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund and the Redevelopment Agency of the City of Roseville Special Revenue Fund.

H. Postemployment Heath Care Benefits

The City provides health care benefits for 327 retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees hired before January 1, 2004 may become eligible for those benefits if they reach the normal retirement age and have a minimum five years of service while working for the City. Employees hired after January 1, 2004 may become eligible for those benefits if they reach the normal retirement age and have years of service credit that range from 10 to 20 years with the City's contributions ranging from 50% to 100%, respectively. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. For the year ending June 30, 2006, those costs totaled $1,953,035.

I. Inventories

Inventories are valued at cost, using the weighted-average method. Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed. Reported General Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets. Inventories of the Enterprise Funds consist primarily of merchandise held for internal consumption.

J. New Funds

The South Placer Animal Central Shelter Special Revenue Fund, and the Stone Point CFD #5, NC SP PAR 44 CFD, Placer County Air Quality Pollution Control, and the Sierra College Boulevard Fee Agency Funds were established in fiscal year 2006.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgeting Procedures

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. The budget is legally enacted through passage of a minute order and ordinance.

4. The City Manager or designee is authorized to apply prudent monitoring procedures to assure that actual expenditures/expenses of the City do not exceed the appropriations by department of the major summary categories (salaries and benefits, operating services and supplies, capital outlay, and capital improvement projects) in conformance with the adopted policies set by the City Council. Additional appropriations or interfund transfers not included in the original budget ordinance require approval by the City Council.

5. Expenditures may not legally exceed budgeted appropriations at the department level by major summary category within each fund.

6. Formal budgetary integration is employed as a management control device during the year.

7. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds. Budgets are adopted for all governmental funds except for the following Special Revenue and Permanent Funds:

    i. Special Revenue Funds
        1. Park and Recreation Donation
        2. Forfeited Property
    ii. Permanent Fund
        1. Roseville Aquatics Complex Maintenance

    The following funds are budgeted on a project basis. Such budgets are based on a project time frame, rather than a fiscal year "operating" time frame, whereby unused appropriations continue until project completion:

    i. Special Revenue Funds
        1. Traffic Mitigation
        2. State Gasoline Tax
        3. Park Development
        4. Pleasant Grove Drain Basin
        5. Tree Propagation
    ii. Capital Project Funds
        1. Community Facilities District
        2. Building

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

C. Excess of Expenditures or Expenses over Appropriations

The Funds below incurred expenditures in excess of their budgets in the amounts below. Sufficient resources were available within each department to finance these overages.

Fund	Department	Amount
General Fund:		
	Housing	
	Salaries and benefits	$21,272
	Planning	
	Salaries and benefits	340,597
	Library	
	Operating services & supplies	7,080
	Payments under developer agreement	34,439
Redevelopment Agency Special Revenue Fund:		
	Debt service:	
	Interest and fiscal charges	448,778
Fire Facilities Special Revenue Fund:		
	Debt service:	
	Interest and fiscal charges	8,100
Community Block Grant/HOME Special Revenue Fund:		
	Parks and recreation	
	Operating services & supplies	286
Affordable Housing Special Revenue Fund:	Community services	
	Operating services & supplies	994,741
Storm Water Management Special Revenue Fund:		
	Capital outlay	37

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments,* or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

The City's investments are carried at fair value instead of cost, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

A. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agency agreements.

Cash and investments in City Treasury	$406,094,296
Restricted cash and investments with fiscal agent	200,879,701
Total City cash and investments	606,973,997
Cash and investments in Fiduciary Funds (Separate statement)	239,576,310
Total Cash and Investments	$846,550,307

Cash and investments as of June 30, 2006 consist of the following:

Cash in bank and on hand	$30,350,546
Investments	816,199,761
Total Cash and Investments	$846,550,307

Cash and investments with original maturities of three months or less are treated as cash and equivalents for purpose of preparing Proprietary Fund statements of cash flows. Also, each Proprietary Funds' portion of the City's overall cash and investment pool is treated as cash and equivalents since these amounts are in substance demand deposits.

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 Years	None	None	None
U.S. Agency Securities	5 Years	None	None	None
Mortgage Pass-Through Securities	5 Years	None	20%	None
Forward Delivery Agreements (A)	N/A	A	None	None
Local Agency Bonds	5 Years	None	None	None
Repurchase Agreements	30 days	None	None	None
Banker's Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1	25%	10% (B)
Medium-Term Notes	5 Years	AA	30%	None
Collateralized Time Deposits	5 Years	None	None	None
Negotiable Certificates of Deposit	5 Years	AA	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None
Insured Saving Accounts	N/A	None	None	None
Money Market Mutual Funds	N/A	None	20%	10%
Shares in a California Common Law Trust	N/A	None	None	None
Interest Rate Swaps (C)	N/A	None	None	None

(A) In specified fund accounts where liquidity is not the primary investment objective, the maximum maturity can be up to ten years with granted express authority by the City Council. Such investments cannot be made less than three months following the approval of extended investment terms. All longer-term investments must be Federal Treasury or Agency securities. The specified fund accounts are:

- Citizens Benefit Permanent Fund
- Roseville Aquatics Complex Maintenance Permanent Fund
- Endowment Private-purpose Trust Fund
- All future trust and/or endowment funds established by the City with no anticipated use of principal

(B) Eligible Commercial Paper may not represent more than 10% of the outstanding paper of an issuing corporation.

(C) Interest rate swaps may only be used in conjunction with enterprise fund debt or investments, not the General Fund. Currently, the City does not participate in any Forward Delivery Agreements. Pursuant to its function as custodian and investment manager of the South Placer Wastewater Authority, the City invested certain Authority funds in Forward Delivery Agreements which are investments with fixed maturities and which bear interest at a variable rate. To hedge against changes in short term interest rates, the Authority entered into a swap agreement to create a synthetic fixed interest rate on one of the Forward Delivery Agreements. Risks associated with the Forward Delivery Agreement and associated swap agreement are those of the Authority and not those of the City. Details of the swap agreement and associated risks may be found in the Basic Financial Statements of the Authority.

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Investments Authorized by Debt Agreements*

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	N/A	None
U.S. Agency Securities	N/A	None
Certificates of Deposit	N/A - 30 days	None - A-1
Time Deposits	N/A - 30 days	None - A-1
Repurchase Agreements	N/A	None - A
Bankers Acceptances	N/A - 270 days	None - A-1
Obligations	N/A	None
Money Market Funds	N/A	None - Aam-G
Taxable Gov't Money Market Portfolio	N/A	None
Legal Investment	N/A	None
Commercial Paper (A)	180-270 days	A-1 - AA
General Obligations	N/A	None - A
General Short-term Obligations	N/A	A-1
Special Revenue Bonds	N/A	AA
Pre-refunded Municipal Obligations	N/A	AAA
Municipal Obligations	N/A	AAA
Common Law Trust	N/A	None
C.A.M.P.	N/A	None
Lawful Investment	N/A	None
Investment Agreements	N/A	A+ - AA
L.A.I.F.	N/A	None
Placer County Investment Pool	N/A	None

(A) Maximum investment in one issuer of Commercial Paper is 10% of the outstanding bond proceeds.

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City also manages its interest rate risk by holding most investments to maturity, thus reversing unrealized market gains and losses.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

	Remaining Maturity (in Months)				
	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months	Total
U.S. Government Securities	$14,137,746	$58,300,853	$11,288,684		$83,727,283
Federal Agency Securities	204,781,653	75,034,630	51,624,554		331,440,837
Corporate Notes	11,382,750		11,316,608		22,699,358
Forward Delivery Agreement			56,450,906	$8,857,396	65,308,302
Commercial Paper	33,179,395				33,179,395
Guaranteed Investment Contracts	37,429,463	76,087,213	3,865,506	25,388,630	142,770,812
Repurchase Agreement				4,905,395	4,905,395
Mutual Funds and Money Market Funds (U.S. Securities)	78,065,785				78,065,785
Local Agency Investment Fund	40,868,373				40,868,373
California Asset Management Pool	11,211,658				11,211,658
Collateralized Time Deposits	2,022,563				2,022,563
Total Investments	$433,079,386	$209,422,696	$134,546,258	$39,151,421	$816,199,761

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. At June 30, 2006 the fair value was $74,277 less than the City's cost. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2006 for each investment type as provided by Standard and Poor's investment rating system:

	AAA	AA	AA-	A+	A-1+	A-1	Total
Investments:							
Federal Agency Securities	$331,440,837						$331,440,837
Corporate Notes	2,699,580	$2,071,112	$6,545,916	$11,382,750			22,699,358
Forward Delivery Agreement			56,450,906	8,857,396			65,308,302
Commercial Paper					$30,678,465	$2,500,930	33,179,395
Guaranteed Investment Contracts	129,116,962	11,540,578	2,113,272				142,770,812
Repurchase Agreements			4,905,395				4,905,395
Mutual Funds and Money Market Funds (U.S. Securities)	78,065,785						78,065,785
Totals	$541,323,164	$13,611,690	$70,015,489	$20,240,146	$30,678,465	$2,500,930	678,369,884
Exempt from Credit Rate Disclosure:							
U.S. Government Securities							83,727,283
Not Rated:							
Local Agency Investment Fund							40,868,373
California Asset Management Pool							11,211,658
Collateralized Time Deposits							2,022,563
Total Investments							$816,199,761

F. Concentration of Credit Risk

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, California Local Agency Investment Fund, and California Asset Management Pool, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2006:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	Federal Agency Securities	$114,350,511
Federal National Mortgage Association	Federal Agency Securities	108,582,471
Federal Home Loan Bank	Federal Agency Securities	103,875,842
Trinity Plus Funding	Investment Contract	61,143,914

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments in any one issuer that represent 5% or more of total investments by individual funds were as follows at June 30. 2006:

Fund	Issuer	Investment Type	Amount
Major Enterprise			
Electric	Trinity Plus Funding	Investment Agreement	$61,143,914
	FSA Capital Management	Investment Agreement	17,094,035
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	15,269,287
	Federal National Mortgage Association	Federal Agency Securities	15,126,418
	Federal Home Loan Bank	Federal Agency Securities	14,092,395
Water	Federal Home Loan Mortgage Corporation	Federal Agency Securities	7,730,061
	Federal Home Loan Bank	Federal Agency Securities	3,968,750
	UBS Finance Corporation	Commercial Paper	3,467,127
Golf Course	AIG	Investment Contract	624,020
Fiduciary Funds			
Endowment Private Purpose Trust Fund	Federal Home Loan Bank	Federal Agency Securities	678,119
North Roseville Community Facilities District #1	Lehman Brothers	Forward Delivery Agreement	1,747,234
Northeast Roseville Community Facilities District #1	MBIA	Investment Contract	840,847
Northeast Roseville Community Facilities District #2	MBIA	Investment Contract	1,105,291
Northwest Roseville Community Facilities District #1	MBIA	Investment Contract	2,367,738
Highland Reserve North Community Facilities District #2	MBIA	Investment Contract	2,540,146
Woodcreek West Community Facilities District #1	MBIA	Investment Contract	1,402,063
Woodcreek East Community Facilities District #2	MBIA	Investment Contract	484,513
Stoneridge East Community Facilities District #1	Societe Generale	Investment Contract	1,188,365
Stoneridge West Community Facilities District #1	Societe Generale	Investment Contract	924,907
Fiddyment Ranch Community Facilities District #1	Rabobank Contract Agreement	Investment Contract	980,769
South Placer Wastewater Authority Agency Fund	J.P. Morgan	Forward Delivery Agreement	56,450,906
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	15,150,609
	Federal Home Loan Bank	Federal Agency Securities	13,328,167
	Federal National Mortgage Association	Federal Agency Securities	11,597,322

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Among Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2006 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Redevelopment Agency of the City of Roseville	$228,440 (A)
	Non-Major Governmental Funds	3,320,520 (B)
	Non-Major Governmental Funds	290,280 (C)
	Electric Enterprise Fund	9,604,312 (D)
	Water Enterprise Fund	2,822,534 (E)
	Wastewater Enterprise Fund	2,013,352 (E)
	Solid Waste Enterprise Fund	1,431,991 (E)
	Golf Course Enterprise Fund	151,920 (C)
	Local Transportation Enterprise Fund	171,060 (C)
	School-Age Child Care Enterprise Fund	332,500 (C)
	Internal Service Funds	840,064 (C)
Redevelopment Agency	General Fund	600,000 (F)
	Non-Major Governmental Funds	340,000 (F)
Community Facilities District Projects	Non-Major Governmental Funds	200,000 (F)
Non-Major Governmental Funds	General Fund	4,970,976 (A)
	Redevelopment Agency of the City of Roseville	25,000 (A)
	Community Facilities District Capital Projects Fund	774,265 (F)
	Non-Major Governmental Funds	6,501,780 (F)
	Electric Enterprise Fund	1,776,202 (B)
	Water Enterprise Fund	945,880 (D)
	Wastewater Enterprise Fund	705,750 (D)
	Solid Waste Enterprise Fund	310,150 (D)
	Local Transportation Enterprise Fund	82,182 (E)
Electric Enterprise Fund	Non-Major Governmental Funds	9,000 (B)
Water Enterprise Fund	Wastewater Enterprise Fund	837,811 (C)
	Solid Waste Enterprise Fund	396,711 (C)
Solid Waste Enterprise Fund	Water Enterprise Fund	41,338 (F)
	Wastewater Enterprise Fund	41,338 (F)
Local Transportation Enterprise Fund	Community Facilities District Capital Projects Fund	184,157 (F)
School-Age Child Care Enterprise Fund	Non-Major Governmental Funds	4,240 (F)
Internal Service Funds	General Fund	2,893,857 (E)
	Non-Major Governmental Funds	464,322 (E)
	Electric Enterprise Fund	572,143 (E)
	Water Enterprise Fund	477,003 (E)
	Wastewater Enterprise Fund	536,317 (E)
	Solid Waste Enterprise Fund	1,726,444 (E)
	Golf Course Enterprise Fund	7,613 (E)
	Local Transportation Enterprise Fund	111,840 (E)
	School-Age Child Care Enterprise Fund	780 (E)
	Internal Service Funds	106,326 (E)
Total Interfund Transfers		$46,850,398

(A) To fund operation and fund indirect costs
(B) Transfer to fund operations and indirect costs.
(C) To pay for indirect costs.
(D) To transfer in lieu franchise fees and fund indirect costs.
(E) Recurring transfers.
(F) To fund various projects in the capital funds or pay debt service.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. *Current Interfund Balances*

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2006 interfund balances comprised the following:

Due From Other Funds	Due To Other Funds	Amount	
General Fund	Redevelopment Agency of the City of Roseville Special Revenue Fund	$750,000	(A)
	Park Development Capital Projects Fund	120,000	(A)
	Roseville Aquatic Complex Maintenance Permanent Fund	4,240	(B)
	School-Age Child Care Enterprise Fund	22,249	(B)
	Automotive Service Internal Service Fund	400,862	(B)
Special Revenue Fund:			
Affordable Housing	Redevelopment Agency of the City of Roseville Special Revenue Fund	50,000	(A)
Enterprise Funds:			
Solid Waste	Wastewater Enterprise Fund	197,610	(A)
Internal Service Fund:			
Automotive Replacement	Traffic Mitigation Special Revenue Fund	212,500	(A)
Automotive Replacement	Golf Enterprise Fund	127,000	(A)
		$1,884,461	

(A) Current portion of the advances mentioned in C below.
(B) To temporarily fund short-term cash flow needs.

C. *Long-Term Interfund Advances*

At June 30, 2006 the funds below had made advances which were not expected to be repaid within the next year.

Fund Receiving Advance	Fund Making Advance	Amount of Advance
Special Revenue Funds:		
Redevelopment Agency of the City of Roseville	General Fund	$8,595,536
	Gas Tax Special Revenue Fund	3,900,000
	Affordable Housing Special Revenue Fund	200,000
	Automotive Replacement Internal Service Fund	829,201
Traffic Mitigation	Automotive Replacement Internal Service Fund	212,500
Enterprise Funds:		
Solid Waste	Wastewater	1,545,390
Golf Course	Automotive Replacement Internal Service Fund	3,766,000
School-Age Child Care	Automotive Replacement Internal Service Fund	300,000
		$19,348,627

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Redevelopment Agency advance consists of four advances: (1) Advances in the amount of $876,789 will be repaid in fiscal year 2009. (2) Advances in the amount of $7,747,948 will be repaid in fiscal year 2029. Both the advances bear interest at the average interest rate of the City's pooled investments. (3) Advance in the amount of $1,000,000 bears interest at 3.15% and will be repaid in fiscal year 2023. (4) Advances in the amount of $3,900,000 bear no interest and will be repaid in fiscal year 2029.

Traffic Mitigation advance bears interest at the average interest rate of the City's pooled investments. Principal to be repaid over four years, interest at the end of repayment schedule. The first annual principal repayment was paid in fiscal year 2006.

Solid Waste advance bears interest at 3.94%. It will be repaid over a period of 10 years and will be repaid in 2016.

Golf Course advance bears interest from 3.5-4.0%. It will be repaid over a period of 27 years and will be repaid in 2029.

School-Age Child Care advance will be repaid over five years beginning in fiscal year 2007. This advance bears interest at the average interest rate of the City's pooled investments and interest is to be paid at the end of the loan.

D. Internal Balances

Internal balances are presented in the City-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 - NOTES RECEIVABLE

The City and Agency engage in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these notes are expected to be repaid in full, their balance has been offset in the fund financial statements by deferred revenue or a reservation of fund balance as they are not expected to be repaid during fiscal year 2007. These notes receivable comprised the following at June 30, 2006:

Notes	$285,591
Employee Notes	90,494
Housing Rehabilitation and Affordable Housing Notes	4,929,514
First Time Home-Buyer Notes	4,985,338
Housing Elevation Notes	28,978
Total	$10,319,915

NOTE 5 - NOTES RECEIVABLE (Continued)

A. Notes Receivable

The City has provided loans to various homeowners and businesses for rehabilitation due to flood damage. The maximum loan amount is $5,000 carrying various interest rates and payment dates. Although these notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance. The balance of these notes receivable at June 30, 2006 was $6,632.

In fiscal year 2000, the City sold an air compressor to Western Placer County JPA. The loan balance of $22,592 was repaid during fiscal year 2006.

In fiscal year 1989, the City made a loan to a property owner in the amount of $7,719, secured by a first deed of trust. The note does not bear interest and payment is deferred until July 2, 2007 unless the property is transferred or sold. The balance of this note has been offset by a reservation of fund balance.

The Agency engages in a commercial rehabilitation program designed to aid small business owners in renovating and rehabilitating commercial property in need of repair. These notes will be forgiven at the end of the Owner Participation Agreement term, which is five to fifteen years, if the property has not been sold. If the property is sold prior to the completion of the agreement term, a proportionate amount of the note will be forgiven. The notes are secured by a deed of trust on the property. At June 30, 2006, $271,240 in notes had been issued to thirteen property owners.

B. Employee Notes Receivable

All full-time and part-time City employees who have completed their probationary period are eligible to obtain an interest free loan of up to $2,500 to purchase a computer. All requests for loans are subject to review by the Information Technology Department and must be approved by the Human Resources Director. Repayment of these loans is handled through payroll deductions which are spread out equally over a two year period. Employees must pay off any outstanding balance on their loans upon ending employment with the City. As of June 30, 2006, 97 employees had $90,494 in notes due to the City.

C. Housing Rehabilitation and Affordable Housing Notes Receivable

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these loans and notes are expected to be repaid in full, their balance has been offset with the liability, Due to Other Governments, as they are not expected to be repaid during fiscal year 2007 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from these programs at June 30, 2006 was $4,929,514.

NOTE 5 - NOTES RECEIVABLE (Continued)

D. First Time Home-Buyer Notes Receivable

The City and the Agency engage in a first time home-buyer program designed to encourage home ownership among low income persons. Under this program, grants or loans are provided at no interest and are due upon sale or transfer of the property. These loans have been offset by due to other governments and deferred revenue as they are not expected to be repaid during fiscal year 2007 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from this program at June 30, 2006 was $4,985,338.

E. Housing Elevation Notes Receivable

In fiscal 1997, the Federal Emergency Management Agency (FEMA) approved Hazard Mitigation Grant Program funds to be used for residential home elevation projects in the City at a maximum of $33,934 per household, with the total federal share not to exceed $1,493,096. The City provides matching funds to each eligible household at a maximum of $5,000 in the form of a zero percent, deferred loan payable upon sale, change of title or change of use (See A. above). As of June 30, 2006, eleven loans funded through the FEMA Hazard Mitigation Grant Program were outstanding with a total balance of $28,978.

NOTE 6 - DEFERRED RECEIVABLES

The City has entered into a number of agreements with developers to defer permit fees for various projects within the City. The terms of these agreements call for various interest rates and payment dates. Although these fees are expected to be repaid in full, their balance has been offset by deferred revenue in governmental funds, as they are not expected to be repaid early enough to be treated as a current asset. The long-term portion of these receivables at June 30, 2006 was $2,809,105, which has been classified as deferred receivables, and the short-term portion of these receivables, which totaled $38,991 at June 30, 2006 is included in accounts receivable.

NOTE 7 – DEVELOPMENT AGREEMENTS AND LAND HELD FOR REDEVELOPMENT

The City may enter into development agreements in an effort to provide incentives to develop new businesses and new tax revenues. The substance of these agreements is that developers or other public agencies will be paid a portion of future sales tax or traffic mitigation fee revenues produced by their developments. These payments are conditioned on the generation of sales tax revenues or traffic mitigation fee revenues by these developments and the City is not required to use any other resources to pay these amounts.

A. Galleria at Roseville

In fiscal 2001, the City entered into a lease agreement with the Galleria at Roseville regional mall. The purpose of this agreement was to share revenue with the mall developers based on the generation of certain levels of sales tax. The Developer agreed to construct the mall, along with water and storm sewer mains, a bike trail, pedestrian walks, landscaping, parking areas and infrastructure improvements to surrounding streets. The mall opened for business in August 2000 and the term of the revenue sharing agreement commenced on that date. The remaining portion of sales tax revenues to be returned approximated $17 million at June 30, 2006. The agreement terminates in 2017, regardless of whether this amount has been returned; after that date all future sales tax revenues remain with the City. During fiscal year 2006 payments made to the developer under the agreement totaled $2,592,039.

NOTE 7 – DEVELOPMENT AGREEMENTS AND LAND HELD FOR REDEVELOPMENT (Continued)

B. Wal-Mart at Roseville

In fiscal year 2003, the City entered into a Wal-Mart Sales Tax Revenue Sharing Agreement with the City of Rocklin. The City agreed to share retail sales tax with the City of Rocklin after the retail sales commenced at the new Wal-Mart location in Roseville on October 28, 2003. The City will make certain sales tax revenue payments to Rocklin for thirty-six months from the day of the store opening which occurred in 2004. In addition, the City has the option to share sales tax revenue with City of Rocklin for an extended period of not more than 24 months. The City of Rocklin completed a final audit of the sales tax generated by the new tenant, and the final payment of approximately $450 thousand will be made in fiscal year 2007.

C. Civic Plaza Project

In fiscal 2004, the Agency agreed to sell four parcels of land to Vernon Street Associates, LLC for $150,000, for the purpose of the construction of an office complex and public parking garage. Two of the parcels were owned by the Agency and two by the City. The City parcels were conveyed to the Agency in fiscal 2006 and subsequently all four parcels were sold to the Developer. The office complex is being built on the land sold to the Developer and is funded by the Developer. The developer has agreed to construct the parking garage for the Agency funded by $5,817,000 of bond proceeds from the Agency's 2002 Tax Allocation Bonds, a $360,000 contribution from the Developer, and a $900,000 contribution from the General Fund. In addition, the Developer has agreed to contribute $20,000 annually, plus an inflationary escalator beginning in 2010, towards the maintenance and operation costs of the parking garage. The Agency anticipates increasing the project contract amount in fiscal 2007 by $2.2 million, funded by an additional $111,415 from the 2002 Tax Allocation Bonds and $2.1 million from the City's General Fund. Construction is expected to be completed in fiscal 2007.

D. Land held for redevelopment

In fiscal year 2006, the Agency purchased 238 Vernon Street in the amount of $1,002,290, which is being held for future development projects. This parcel is accounted for the lower of cost or net realizable value.

NOTE 8 – CAPITAL ASSETS

A. Policies

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City has recorded all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

Capital assets with limited useful lives are depreciated over their estimated useful lives. Alternatively, the "modified approach" is used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

NOTE 8 – CAPITAL ASSETS (Continued)

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives and capitalization thresholds listed below to capital assets:

	Useful lives	Capitalization Thresholds
Buildings	20-40 years	$10,000
Improvements	40 years	10,000
Machinery and Equipment	3-12 years	5,000
Bike Paths	20 years	10,000
Bridges	90 years	10,000
Culverts	75 years	10,000
Curb, Gutter, Sidewalks & Median Curbs	20 years	10,000
Drain Inlets	50 years	10,000
Flood Control Improvements	75 years	10,000
Soundwall	35 years	10,000
Stormdrains	75 years	10,000
Traffic Signals	20 years	10,000
Plants and Substations		
Electric	10-120 years	10,000
Sewer	15-60 years	10,000
Water	15-75 years	10,000
Electric Improvements:		
Electric	7-100 years	10,000
Sewer	75 years	10,000
Water	75 years	10,000

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 8 - CAPITAL ASSETS (Continued)

B. *Capital Asset Additions and Retirements*

Capital assets at June 30 comprise:

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Governmental activities					
Capital assets not being depreciated:					
Land	$22,062,494	$1,320,766	($799,729)		$22,583,531
Streets (modified)	159,271,316	1,801,626		$5,777,045	166,849,987
Parks (modified)	54,382,618	3,857,806		2,011,928	60,252,352
Landscaping (modified)	24,609,465	1,280,052		3,249,144	29,138,661
Construction in progress	63,420,753	89,090,501	(5,404,243)	(20,263,644)	126,843,367
Total capital assets not being depreciated	323,746,646	97,350,751	(6,203,972)	(9,225,527)	405,667,898
Capital assets being depreciated:					
Buildings	79,895,972				79,895,972
Improvements	4,259,672	487,706			4,747,378
Equipment	43,866,622	8,469,652	(655,386)	897,500	52,578,388
Bike paths	7,173,994	60,000			7,233,994
Bridges	45,570,000			1,020,903	46,590,903
Culverts	18,872,843	30,597		24,115	18,927,555
Curb, gutter, sidewalk, & median curbs	118,184,698	750,337		1,782,931	120,717,966
Drain inlets	18,175,850	11,591		705,864	18,893,305
Flood control improvements	15,567,227	811,593		914,126	17,292,946
Soundwall	18,302,112	737,487		2,323,877	21,363,476
Stormdrains	49,362,029	951,805		996,476	51,310,310
Traffic signals	18,655,503			264,966	18,920,469
Total capital assets being depreciated	437,886,522	12,310,768	(655,386)	8,930,758	458,472,662
Less accumulated depreciation for:					
Buildings	(27,641,123)	(1,964,768)			(29,605,891)
Improvements	(805,173)	(153,286)		31,793	(926,666)
Equipment	(29,739,457)	(4,399,463)	645,160	(13,353)	(33,507,113)
Bike paths	(3,259,863)	(358,921)			(3,618,784)
Bridges	(4,837,833)	(512,005)			(5,349,838)
Culverts	(3,153,509)	(252,003)			(3,405,512)
Curb, gutter, sidewalk, & median curbs	(65,474,801)	(4,878,772)			(70,353,573)
Drain inlets	(4,973,269)	(370,692)			(5,343,961)
Flood control improvements	(1,071,585)	(219,068)			(1,290,653)
Soundwall	(3,341,686)	(566,651)			(3,908,337)
Stormdrains	(7,361,622)	(671,149)			(8,032,771)
Traffic signals	(9,595,257)	(808,196)			(10,403,453)
Total accumulated depreciation	(161,255,178)	(15,154,974)	645,160	18,440	(175,746,552)
Net capital assets being depreciated	276,631,344	(2,844,206)	(10,226)	8,949,198	282,726,110
Governmental activity capital assets, net	$600,377,990	$94,506,545	($6,214,198)	($276,329)	$688,394,008

NOTE 8 - CAPITAL ASSETS (Continued)

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Business-type activities					
Capital assets, not being depreciated:					
Land	$16,060,224	$65,522			$16,125,746
Landscaping	550,000				550,000
Construction in progress	70,102,472	124,556,748	($26,028)	($31,221,683)	163,411,509
Total capital assets not being depreciated	86,712,696	124,622,270	(26,028)	(31,221,683)	180,087,255
Capital assets, being depreciated:					
Buildings	11,826,851	176,179			12,003,030
Improvements	10,760,868	35,182		239,049	11,035,099
Machinery and Equipment	15,166,665	1,275,459	(202,660)	(14,553)	16,224,909
Bike Paths	1,064,167				1,064,167
Drain Inlets	18,500				18,500
Storm Drains	30,863				30,863
Plant and Substations	270,887,289	2,521,151		9,915,763	283,324,200
Distribution	785,173,691	40,599,642	(686,344)	21,376,192	846,463,181
Total capital assets being depreciated	1,094,928,894	44,607,613	(889,004)	31,516,451	1,170,163,949
Less accumulated depreciation for:					
Buildings	(3,310,767)	(304,908)			(3,615,679)
Improvements	(2,710,064)	(259,713)		(3,428)	(2,973,205)
Machinery and Equipment	(6,367,627)	(1,867,914)	172,024	13,354	(8,050,163)
Bike Paths	(79,812)	(53,208)			(133,020)
Drain Inlets	(555)	(370)			(925)
Storm Drains	(618)	(412)			(1,030)
Plant and Substations	(42,798,874)	(6,643,086)			(49,441,960)
Distribution	(117,913,470)	(11,774,704)	102,076	(28,365)	(129,614,463)
Total accumulated depreciation	(173,181,787)	(20,904,315)	274,100	(18,439)	(193,830,445)
Net capital assets being depreciated	921,747,107	23,703,298	(614,904)	31,498,012	976,333,504
Business-type activity capital assets, net	$1,008,459,803	$148,325,568	($640,932)	$276,329	$1,156,420,759

NOTE 8 - CAPITAL ASSETS (Continued)

C. *Depreciation Allocation*

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities	
General government	$1,079,238
Community development and planning	159,624
Public works	8,889,175
Police	472,351
Fire	439,714
Library	123,320
Parks and recreation	392,928
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	3,598,624
Total Governmental Activities	$15,154,974
Business-Type Activities	
Electric	$5,016,959
Water	5,413,630
Wastewater	9,011,997
Solid Waste	268,015
Golf Course	395,336
Local Transportation	783,855
School-age Child Care	14,523
Total Business-Type Activities	$20,904,315

D. *Streets, Parks and Landscaping Covered By The Modified Approach*

The City has elected to use the modified approach discussed above with respect to its roads, most of which are relatively new. The City's policy based on current funding is to maintain the arterial and collector roadways at an average Pavement Quality Index (PQI) of 7.5 and residential roadways at an average PQI of 6.5, instead of providing depreciation. During fiscal 2006 the City expended $7,213,261 to preserve its roads. The City estimates that it will be required to expend approximately $5,521,428 in fiscal 2007 to maintain its roads at this condition level.

The City has also elected to use the modified approach with respect to its parks and landscaping, most of which are relatively new. The City's policy based on current funding is to maintain the parks and landscape at an average Ground Management Index (GMI) of Level 2, instead of providing depreciation. During fiscal 2006 the City expended $4,309,606 to preserve its parks and landscaping. The City estimates that it will be required to expend approximately $5,111,124 in fiscal 2007 to maintain its parks at this condition level.

NOTE 9 - LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Governmental Activity Debt:						
Certificates of Participation:						
2003A Public Facilities Refunding Bond, 2.0%-5.0%, due 8/1/25	$18,275,000	$17,710,000		$605,000	$17,105,000	$615,000
Tax Allocation Bonds						
2002 Roseville Redevelopment Project 3%-5.14%, due 9/1/33	14,500,000	13,960,000		225,000	13,735,000	275,000
Installment Purchase Obligations:						
Equipment	3,351,714	306,140	$2,239,765	108,919	2,436,986	256,415
Other Long Term Obligations:						
Foothill Blvd. Extension, due 4/1/07	114,423	6,250		3,027	3,223	3,223
Total Governmental Activity Debt:	$36,241,137	$31,982,390	$2,239,765	$941,946	$33,280,209	$1,149,638
Business-type Activity Debt:						
Certificates of Participation:						
1997 Electric System Revenue, 3.6%-5.25%, due 2/1/17	$11,880,000	$635,000		$310,000	$325,000	$325,000
1999 Electric System Revenue, 4.0%-5.5%, due 2/1/24	21,630,000	2,135,000		500,000	1,635,000	520,000
2002 Electric System Revenue, variable rate, due 2/1/24	40,385,000	30,980,000		5,360,000	25,620,000	225,000
Less deferred amount on refunding	(3,780,476)	(3,264,957)		(171,839)	(3,093,118)	
2004 Electric System Revenue, 3.00%-5.25%, due 2/1/34	39,940,000	39,940,000			39,940,000	330,000
2005 Electric System Revenue, Series A 3.00%-5.00%, due 2/1/23	52,900,000	52,900,000			52,900,000	
2005 Electric System Revenue, Series B variable rate, due 2/1/35	90,000,000	90,000,000			90,000,000	
2005 Electric System Revenue, Series C variable rate, due 2/1/35	60,000,000	60,000,000			60,000,000	
2003B Golf Course Refunding Bond, 2.0%-5.0%, due 8/1/23	8,240,000	7,945,000		315,000	7,630,000	320,000
1997 Water Utility Revenue, 3.9%-5.2%, due 12/1/18	33,000,000	26,075,000		1,335,000	24,740,000	1,395,000
Total Certificates of Participation	354,194,524	307,345,043		7,648,161	299,696,882	3,115,000
Revenue Bonds:						
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/27	59,465,118	8,924,501		1,337,999	7,586,502	1,394,878
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	37,919,000	37,919,000			37,919,000	
2003 Wastewater Refunding Revenue Bonds, variable rate, due 11/1/27	52,544,900	51,353,167		338,563	51,014,604	352,105
Less deferred amount on refunding	(6,333,890)	(5,806,065)		(263,921)	(5,542,144)	
Total Revenue Bonds	143,595,128	92,390,603		1,412,641	90,977,962	1,746,983
Other Long Term Obligations:						
Notes, 5%, due 10/1/17	333,108	182,351		10,295	172,056	10,810
Total Business-type Activity Debt:	$498,122,760	$399,917,997		$9,071,097	$390,846,900	$4,872,793

NOTE 9 - LONG-TERM DEBT (Continued)

B. 2003A Public Facilities Refunding Bonds

On July 17, 2003 the City issued $18,275,000 of Public Facilities Refunding COPs to advance refund the outstanding 1993 Public Facilities COP's. The COP's are repayable from the any source of available funds of the City which includes the General Fund. Principal payments are payable annually and interest payments are due semi-annually on February 1 and August 1 through 2025.

C. 2002 Roseville Redevelopment Project Tax Allocation Bonds

On October 23, 2002 the Redevelopment Agency issued Tax Allocation Bonds in the original principal amount of $14,500,000 to fund certain redevelopment activities of benefit to property within the Agency's Roseville Redevelopment Project Area. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenue. Principal payments are payable annually on September 1 and interest payments are due semi-annually on March 1 and September 1, through September 1, 2033.

D. Installment Purchase Obligations

The City is purchasing various pieces of computer equipment on the installment basis. The City has also entered into long-term contracts for the lease/purchase of various public safety equipment.

E. Foothill Blvd. Extension

The City acquired several parcels of land, in August of 1989, within the Foothill Boulevard Extension Assessment District to build the Corporation Yard. Upon acquisition, the City took over the assessment debt in the amount of $114,423, due on these parcels. Principal and interest payments are payable annually on April 1, through April 1, 2007.

F. 1997 Electric System Revenue Certificates of Participation

The City issued Certificates of Participation in the original principal amount of $11,880,000 on November 1, 1997 to finance a substation for the Electrical System and to refinance its' 1985 COP's and is repayable from net revenue of the Electric Utility System. Principal payments are payable annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2017.

In December of 2002 the City defeased a portion of the 1997 COP's by placing proceeds from the 2002 Electric System Revenue Certificates of Participation in an irrevocable trust to provide amounts sufficient to pay on February 1, 2008 the prepayment price of 101% of the principal amount and accrued interest. Accordingly, the trust account assets and the liability for the defeased COP's are not included in the financial statements. At June 30, 2006 the 1997 Electric System Revenue Certificates of Participation outstanding in the amount of $4,290,000 are considered defeased.

NOTE 9 - LONG-TERM DEBT (Continued)

G. 1999 Electric System Revenue Certificates of Participation

On August 3, 1999, the City issued $21,630,000 of Certificates of Participation to finance a portion of the cost of capital improvements and is repayable from net revenue of the Electric Utility System. The Certificates bear interest at 4.0% - 5.5% and are due semi-annually on February 1 and August 1. Principal payments are due annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2024.

In December of 2002 the City defeased a portion of the 1999 COP's by placing proceeds from the 2002 Electric System Revenue Certificates of Participation in an irrevocable trust to provide amounts sufficient to pay on August 1, 2009 the prepayment price of 101% of the principal amount and accrued interest. Accordingly, the trust account assets and the liability for the defeased COP's are not included in the financial statements. At June 30, 2006 the 1999 Electric System Revenue Certificates of Participation outstanding in the amount of $17,685,000 are considered defeased.

H. 2002 Electric System Revenue Certificates of Participation

On December 17, 2002 the City issued $40,385,000 of Certificates of Participation to defease portions of the 1997 and 1999 Electric System Revenue Certificates of Participation above and finance a portion of the cost of capital improvements. The COP's are repayable from net revenue of the Electric Utility System. Principal Payments are due annually in two installments on January 1 and February 1 in fiscal years ending June 30, 2003 through June 30, 2006. The remaining principal payments are due annually on February 1 and interest payments are due monthly, through February 1, 2024.

The 2002 Electric System Revenue Certificates of Participation were issued as variable rate COP's, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the City entered into a 22-year interest rate swap agreement for the entire amount of its 2002 Electric System Revenue Certificates of Participation as discussed in P. below. The combination of the variable rate COPs and a floating rate swap creates synthetic fixed-rate debt for the City. The synthetic fixed rate for the COPs was 2.99% at June 30, 2006.

I. 2004 Electric System Revenue Certificates of Participation

On July 1, 2004 the City issued $39,940,000 of Certificates of Participation to finance capital improvements to the City's Electric System. The COP's are repayable from net revenue of the Electric Utility System. The COPs bear interest at 3.00%-5.25% and are due semi-annually on February 1 and August 1 of each year beginning February 1, 2005. Principal payments are due annually on February 1 beginning February 1, 2007.

NOTE 9 - LONG-TERM DEBT (Continued)

J. ***2005 Electric System Revenue Certificates of Participation, Series A; 2005 Electric System Revenue Certificates of Participation, Series B; and 2005 Electric System Variable Rate Revenue Certificates of Participation, Series C;***

On May 26, 2005 the City issued Certificates of Participation Series A, Series B, and Series C in the original principal amounts of $52,900,000, $90,000,000, and $60,000,000 respectively, to finance certain Electric System improvements, primarily including construction of the Roseville Energy Park.

The Series A COPs bear interest at 3.00%-5.00% and are due semi-annually on February 1 and August 1 of each year beginning February 1, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2023.

The Series B COPs were issued as auction rate securities with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the City entered into a 30-year interest rate swap agreement for the entire amount of the Series B COPs as discussed in P. below. The combination of the variable rate Series B COPs and a floating rate swap creates synthetic fixed-rate debt for the City. The synthetic fixed rate for the Series B COPs was 3.19% at June 30, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2035.

The Series C were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. Interest payments are due semi-annually on February 1 and August 1 of each year beginning February 1, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2035.

K. ***2003B Golf Course Refunding Certificates of Participation***

On July 17, 2003 the City issued $8,240,000 of Golf Course Refunding COPs, the proceeds of which are to be used to advance refund the outstanding 1993 Golf Course COP's. The COP's are repayable from the any source of available funds of the City which includes the General Fund. Principal and interest payments are due annually on August 1 through 2025.

L. ***1997 Water Utility Revenue Certificates of Participation***

The City issued Certificates of Participation in the original principal amount of $33,000,000 on September 1, 1997 to finance the acquisition, construction, and installation of additions to the water utility system, and is repayable from net revenue from the Water Utility System. Principal payments are payable annually on December 1 and interest payments are due semi-annually on December 1 and June 1, through December 1, 2018.

NOTE 9 - LONG-TERM DEBT (Continued)

M. *2000 South Placer Wastewater Authority Wastewater Revenue Bonds, Series A; and 2000 South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B*

In November 2000, the South Placer Wastewater Authority issued Revenue Bonds Series A and Series B in the original principal amounts of $109,775,000 and $70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. Upon completion, this Plant will benefit the City of Roseville, the South Placer Municipal Utility District, and the County of Placer. These three entities in return share the obligation of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements.

The South Placer Wastewater Authority Wastewater Revenue Bonds, Series A were issued as fixed rate bonds. On September 17, 2003, $84,525,000 of the Series A Bonds were defeased by the 2003 Wastewater Refunding Revenue Bonds as mentioned below. Remaining principal payments are payable annually on November 1 and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027. At June 30, 2006 the outstanding balance of the defeased portion of the Series A Bonds was $84,525,000.

The South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. The average monthly interest paid in fiscal year 2006 was $172,905. Beginning in fiscal year 2029, principal payments will be made in addition to the variable interest payments.

N. *2003 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds*

On September 17, 2003 the South Placer Wastewater Authority issued $97,000,000 of Refunding Wastewater Revenue Bonds to defease a portion of the Series A Wastewater Revenue Bonds, as discussed above. The City's share of this obligation was determined to be 54.17%. These proceeds were placed in an irrevocable trust to provide for all future debt service payments on the Refunded Bonds. Principal and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027.

The 2003 Wastewater Refunding Revenue Bonds were issued as auction rate bonds with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the Authority entered into a 24-year interest rate swap agreement for the entire amount of its 2003 Refunding Revenue bonds as discussed in P. below. The combination of the variable rate Bonds and a floating rate swap creates synthetic fixed-rate debt for the Authority. The synthetic fixed rate for the Bonds was 3.55% at June 30, 2006.

O. *Notes Payable*

The City borrowed $333,108 original principal amount, on November 9, 1977, from the U. S. Department of Commerce to aid in financing drought emergency projects. The debt is repayable from the surplus revenue account of the Water Revenue Bonds. Principal and interest payments are payable annually on October 1, through October 1, 2017.

NOTE 9 - LONG-TERM DEBT (Continued)

P. *Interest Rate Swap Agreements*

The City entered into interest swap agreements in connection with the 2002 Electric System Revenue Certificates of Participation and the 2005 Electric Revenue Certificates of Participation, Series B. The City has a 54.17% interest in the Authority which entered into an interest swap agreement in connection with the 2003 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds.

These transactions allow the City to create synthetic fixed rates on the COPs and Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreements are disclosed below.

Terms. The terms, including the counterparty credit ratings of the outstanding swaps, as of June 30, 2006, are included below. The swap agreements contain scheduled reductions to the outstanding notional amount that are expected to follow scheduled reductions in the associated bond issues.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Credit Rating	Fixed Rate Paid	Variable Rate Received	Termination Date
2002 Electric System Revenue COP	$25,620,000	12/18/2002	Morgan Stanley Capital Services Inc.	A+	2.980%	62% of 30-day LIBOR	2/1/2024
2005 Electric System Revenue COP, Series B	36,000,000	6/30/2005	Bear Stearns Financial Products Inc.	AAA	3.613%	70.5% of 30-day LIBOR	2/1/2035
2005 Electric System Revenue COP, Series B	54,000,000	6/30/2005	Morgan Stanley Capital Services Inc.	A+	3.613%	70.5% of 30-day LIBOR	2/1/2035
2003 Wastewater Refunding Revenue Bonds (City portion)	51,014,604 (A)	9/17/2003	Morgan Stanley Capital Services Inc.	A+	3.433%	62% of 30-day LIBOR	11/1/2027
	$166,634,604						

(A) The Authority's swap agreement is based on the notional amount of $94,175,000 equivalent to the outstanding balance on the 2000B Bonds. The City's share of these underlying Bonds is 54.17%, or $51,014,604. Only the City's portion of the swap agreement is shown above, since the City is only obligated for that portion of the Authority's bonds.

Based on the swap agreements, the City owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and Bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

NOTE 9 - LONG-TERM DEBT (Continued)

Fair value. Fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by each swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. As of June 30, 2006, the fair value of the swaps were in favor of the City as follows:

Related Bond Issue	Fair Value
2002 Electric System Revenue COP	$1,003,562
2005 Electric System Revenue COP, Series	
Bear Stearns Financial Products Inc.	1,961,741
Morgan Stanley Capital Services Inc.	3,045,127
2003B Wastewater System Refunding Revenue Bonds	511,220 (A)
	$6,521,650

(A) The fair value of the Authority 's swap agreement was $946,704. The City's share is 54.17% or $511,220.

Credit risk. As of June 30, 2006, the City was exposed to credit risk on the outstanding swaps because the swaps had positive fair values. These amounts may increase if interest rates increase in the future. However, if interest rates decline and fair values of the swaps were to become negative, the City would no longer be exposed to credit risk. The City will be exposed to interest rate risk only if a counterparty to a swap defaults or if the swap is terminated.

Basis risk. Basis risk is the risk that the interest rate paid by the City on the underlying variable rate bonds to the bondholders temporarily differs from the variable swap rates received from the applicable counterparty. The City bears basis risk on the swaps. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying COPs and Bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

NOTE 9 - LONG-TERM DEBT (Continued)

Termination risk. The City may terminate if the other party fails to perform under the terms of the contract. The City will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2006, debt service requirements of the City's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at Q:

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net	
	Principal	Interest	Interest	Total
2007	$577,105	$5,538,881	($102,625)	$6,013,361
2008	940,648	5,514,366	(102,101)	6,352,913
2009	974,190	5,482,377	(100,858)	6,355,709
2010	1,612,733	5,440,949	(98,954)	6,954,728
2011	1,666,275	5,386,478	(95,748)	6,957,005
2012-2016	18,454,041	25,234,450	(461,662)	43,226,829
2017-2021	21,975,638	21,835,534	(437,944)	43,373,228
2022-2026	45,635,596	17,084,701	(395,396)	62,324,901
2027-2031	41,998,375	12,117,404	(403,377)	53,712,402
2032-2036	32,800,000	7,628,156	(279,954)	40,148,202
	$166,634,601	$111,263,296	($2,478,619)	$275,419,278

Q. *Debt Service Requirements*

Annual debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	$1,149,638	$1,436,135	$4,872,793	$15,324,484
2008	1,126,997	1,421,673	6,068,755	15,120,543
2009	1,118,157	1,387,311	7,275,160	14,900,219
2010	1,126,019	1,349,838	8,499,303	14,641,478
2011	1,155,813	1,310,437	10,436,183	14,369,851
2012-2016	6,470,133	5,858,137	58,880,278	66,086,933
2017-2021	7,163,452	4,372,673	66,706,723	54,386,392
2022-2026	8,515,000	2,468,625	71,170,596	43,127,820
2027-2031	3,605,000	931,125	83,972,083	34,057,185
2032-2036	1,850,000	104,000	81,600,288	19,126,221
Total	$33,280,209	$20,639,954	399,482,162	$291,141,126
Reconciliation of long-term debt				
Less deferred amount on refunding			(8,635,262)	
Net long-term debt			$390,846,900	

NOTE 10 – DEBT WITHOUT CITY COMMITMENT

A. *Special Assessment Districts*

Special Assessment Districts, including Mello Roos Districts, in various parts of the City have issued debt to finance infrastructure improvements and facilities within their boundaries. The City is the collecting and paying agent for the debt issued by these Districts, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not recorded as long-term debt of the City. The outstanding balance of each of these issues as of June 30, 2006 is as follows:

North Roseville-Rocklin Sewer Refunding District	$555,000
Foothills Boulevard Extension Assessment District	850,000
Northeast Roseville Community Facilities District #1 & #2	16,900,000
North Roseville Community Facilities District #1	21,720,000
North Central Roseville Community Facilities District #1	41,575,000
Northwest Roseville Community Facilities District #1	25,010,000
Woodcreek West Community Facilities District #1, Series 2005	20,440,000
Stoneridge Parcel 1 Community Facilities District #1	1,865,000
Stoneridge East Community Facilities District # 1	15,080,000
Stoneridge West Community Facilities District # 1	12,085,000
Crocker Ranch Community Facilities District # 1, Series 2002	4,325,000
Crocker Ranch Community Facilities District # 1, Series 2003	14,980,000
Stone Point Community Facilities District # 1	11,030,000
Fiddyment Ranch Community Facilities District # 1	37,350,000
Longmeadow Parkside Community Facilities District # 1	9,165,000
Westpark Community Facilities District # 1	57,905,000
Roseville Finance Authority Revenue Bonds, Series 2006 A and B	40,515,000
Total	$331,350,000

In March 2006, the City issued the Highland Reserve North Community Facilities District Bonds (HRN Bonds) in the principal amount of $33,120,000 and the Woodcreek East Community Facilities District Bonds (WEC Bonds) in the principal amount of $6,245,000, to refinance the Highland Reserve North Community Facilities District #1, Series 1999, and the Woodcreek East Community Facilities District #1, Series 2000, Bonds, respectively. Also in March 2006, the Roseville Finance Authority (RFA) issued $40,515,000 principal amount of Revenue Bonds. Proceeds from the Revenue Bonds were used by a Trustee to purchase the HRN Bonds and the WEC Bonds which are held as investments ($36,365,000 as of June 30, 2006) and collateral for the repayment of the Revenue Bonds. District property owners pay assessments on their property under the respective HRN and WEC Bond indentures to the Trustee as owner of the HRN and WEC Bonds. The Trustee then uses these assessments to pay debt service on the Revenue Bonds. Neither the faith and credit nor the general taxing power of the City of Roseville have been pledged to the payment of the Bonds. Therefore, the investment and the Bonds have not been included in the accompanying financial statements.

NOTE 11 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in capital assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects (expended) or contributions received in permanent funds (unexpended), debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balances, Reserves and Designations

In the Fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

C. Reserves

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity, which provided the funds. The City cannot modify or remove these restrictions or reserves. At June 30, 2006, reservations included:

Reserves for **advances, inventories, deferred receivables and notes receivable, and prepaids** are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **capital projects** is the portion of fund balance to be used for projects approved by the Council.

Reserve for **low and moderate income housing** is the portion of redevelopment fund balance legally required to be set-aside for low and moderate income housing expenditures.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long-term liabilities.

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

D. Designations

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period. Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

Designated for economic reserve is the portion of fund balance which represents 10% of the original adopted operating expenditure budget to be used in the event of fiscal need.

Designated for carryover of capital improvement projects is the portion of fund balance to be used for approved capital projects.

E. Fund Balance and Net Assets Deficits

The Roseville Aquatics Complex Maintenance Permanent and Automotive Services Internal Service Funds had deficit fund balances at June 30, 2006 in the amounts of $1,786 and $108,532, respectively. Future revenues are expected to offset these deficits.

NOTE 12 - PENSION PLAN

CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service; one year of credited service is equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2006, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	55
Monthly benefits, as a % of annual salary	3%	2.7.%
Required employee contribution rates	9%	8%
Required employer contribution rates	27.929%	17.057%
Actuarially required contributions	$4,360,965	$9,840,595

The City's labor contracts require it to pay employee contributions as well as its own.

NOTE 12 - PENSION PLAN (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2006, 2005 and 2004 amounted to $14,201,560, $16,350,444 and $12,344,738 respectively. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plans' actuarial value (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
2003	$71,045,091	$59,434,080	$11,611,011	83.7%	$11,047,254	105.103%
2004	80,707,509	66,152,912	14,554,597	82.0%	12,799,408	113.713%
2005	97,938,304	75,260,002	22,678,302	76.8%	15,457,592	146.700%

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
2003	$144,786,456	$111,129,154	$33,657,302	76.8%	$42,975,594	78.317%
2004	166,048,078	124,996,283	41,051,795	75.3%	46,309,329	88.647%
2005	194,259,046	145,741,567	48,517,479	75.0%	52,630,299	92.200%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 13 - RISK MANAGEMENT

The City manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below and by retaining certain risks. The City maintains insurance coverage from a commercial carrier for its long-term disability and dental benefit plan.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member agencies. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

A. Risk Coverage

The City is a member of the California Joint Powers Risk Management Authority (CJPRMA) which covers general liability claims up to $40,000,000, property damage up to $5,000,000, and boiler and machinery up to $21,250,000. The City has a self-insured retention or deductible of $500,000, $25,000, and $5,000, respectively, per claim. Once the City's self-insured retention for general liability claims is met, CJPRMA becomes responsible for payment of all claims up to the limit. CJPRMA has purchased commercial insurance against property damage and boiler and machinery claims. During the fiscal year ended June 30, 2006, the City contributed $1,221,987 for coverage during the current year and received a refund of $166,290 of prior year excess contributions.

The City is also a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which covers workers' compensation claims up to $1,750,000 and provides additional coverage up to $146,000,000. The City has a self-insured retention of up to $250,000 per claim. During the fiscal year ended June 30, 2006, the City contributed $590,075 for current year coverage.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Financial statements for the risk pools may be obtained from CJPRMA, 2333 San Ramon Valley Blvd., Suite 250, San Ramon, CA 94583 and LAWCX, c/o James P. Marta, CPA, 5921 Landis Avenue, Suite 1, Carmichael, CA 95608.

B. Insurance Internal Service Funds

The Governmental Accounting Standards Board (GASB) requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

NOTE 13 - RISK MANAGEMENT (Continued)

The change in the Worker's Compensation Internal Service Fund's claims liability, including claims incurred but not reported is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	2006	2005
Claims liability, beginning of year	$5,432,000	$5,118,000
Current year claims	2,000,000	1,600,000
Change in prior year claims	(477,000)	(543,000)
Claims paid, current year claims	(330,000)	(206,000)
Claims paid, prior year claims	(81,000)	(537,000)
Claims liability, end of year	$6,544,000	$5,432,000
Due in one year	$577,000	$411,000

The City's liability for uninsured general liability claims, including claims incurred but not reported is reported in the General Liability Internal Service Fund. The liability is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	2006	2005
Claims liability, beginning of year	$2,043,000	$1,835,000
Current year claims	1,200,000	750,000
Change in prior year claims	(1,199,000)	1,329,000
Claims paid, current year claims	(85,000)	(106,000)
Claims paid, prior year claims	(33,000)	(1,765,000)
Claims liability, end of year	$1,926,000	$2,043,000
Due in one year	$994,500	$118,000

The Unemployment Reserve and Vision Internal Service Funds had no outstanding claims liability at June 30, 2006.

NOTE 14 - PREPAID PURCHASED ELECTRICITY

During fiscal 1999 the City paid $6,138,335 to the Northern California Power Agency (NCPA) (see Note 15) as a capital contribution for the Geothermal and Hydroelectric Projects debt refinancing. This contribution has been capitalized on the City's balance sheet and will be amortized in conjunction with the related debt service savings. The amount amortized for fiscal year 2006 was $210,350.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA)

A. General

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

The City is a member of NCPA, a joint powers agency which operates under a joint powers agreement among twenty-one public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities, and to optimize the use of those facilities and the members position in the industry. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and certain members have entered into take-or-pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.

The City receives no income from NCPA, and does not participate in all of its projects. Further, NCPA does not measure or determine The City's equity in NCPA as a whole. NCPA reports only The City's share of its General Operating Reserve, comprised of cash and investments, and The City's share of those Projects in which The City is a participant. These amounts are reflected in the financial statements as Investment in NCPA Reserve.

During the year ended June 30, 2006, the City incurred expenses totaling $17,079,776 for purchased power and assessments and prepaid assets paid to NCPA.

The City's interest in certain NCPA Projects and Reserve, as computed by NCPA using unaudited information, is set forth below.

	June 30, 2006
General Operating Reserve (including advances)	$9,749,631
Associated Member Services (including advances)	722,580
Undivided equity interest, at cost, in certain NCPA Power Projects:	
Geothermal Projects	406,675
Calaveras Hydroelectric Project	511,224
Combustion Turbine Project No. 1	63,903
Geothermal Public Power Line	Nil
Combustion Turbine Project No. 2	554,480
Graeagle Hydroelectric Project	Nil
	$12,008,493

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

The General Operating Reserve represents the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

B. Projects

Geothermal Projects

A purchased power agreement with NCPA obligates the City for 7.880% of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam powered generating plants, Plant Number 1 and Plant Number 2.

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. NCPA has continued to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and has evaluated a number of alternatives to increase water reinjection at strategic locations. NCPA, together with other steam developers and the Lake County Sanitation District, has completed the construction of a wastewater pipeline project that greatly increased the amount of water available for reinjection.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District have constructed a wastewater pipeline project that greatly increased the amount of water available for reinjection.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

Based on an internal assessment of the melded costs of power from the Geothermal Project and all other resources available to the members, NCPA believes its members will continue to be able to operate their electric utilities on a competitive basis, when compared to local investor-owned utility rates, while meeting all electric system obligations including those to NCPA. In January 1996, NCPA issued $167,940,000 (1996 Refunding Series B), and $5,420,000 (1996 Taxable Series C) in variable rate revenue bonds, the proceeds of which were used to refund a portion of the 1987 Refunding Series A Revenue Bonds. In August 1998, NCPA remarketed $121,590,000 (1996 Refunding Series A) of revenue bonds changing the interest rate from a weekly interest rate to a long term rate. The City is obligated to pay its contractual share of the debt until it is fully satisfied, regardless of resulting cost or availability of energy. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $164,647,974, while its long-term debt totaled $125,259,152 and other liabilities totaled $39,388,822. The City's share of the Project's long-term debt amounted to $9,870,421 at that date.

On October 28, 2004 NCPA approved a resolution to finance the expansion and remodeling of NCPA main office building located in Roseville. The expansion is included as part of the Geothermal Projects funded by the bonds mentioned above. The City will recover its 7.880% share of the cost of the expansion which was $204,958, with a 5% return on the investment over a ten year period. As of June 30, 2006 the City was owed $192,879.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 12% of this Project's debt service and operating costs. On April 16, 2002, NCPA completed the $86,620,000 refunding of revenue bonds at a weekly variable interest rate, initially set at 5.097%, and a net present value savings of $10,160,431. During fiscal year 2002 the City paid $11.6 million to NCPA for its share of refunding the 1992 Refunding Series A Bonds and costs of issuance related to the 2002 Refunding Series A, B and C Bonds. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $511,981,096 while its long-term debt totaled $487,145,361 and other liabilities totaled $24,835,735. The City's share of the Project's long-term debt amounted to $58,457,443 at that date.

Combustion Turbine Project No. 1

In October 1984, NCPA financed a five-unit, 125-megawatt combustion turbine project. The project, built in three member cities, began full commercial operation in June 1986, providing reserve and peaking power. In December 1989, NCPA issued $68,958,257 in fixed rate revenue bonds, the proceeds of which were used to defease the bonds then outstanding. Under the NCPA power purchase agreement, the City is obligated to pay 13.5840% of this Project's debt service and operating costs. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $21,066,765, while its long-term debt totaled $18,661,892 and other liabilities totaled $2,404,870. The City's share of the Project's long-term debt amounted to $2,534,285 at that date.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

Geothermal Public Power Line

In 1983, NCPA, Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line (GPPL) which would carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners could receive it for transmission to their load centers. NCPA has an 18.5% share of this Project and the City has a 14.1756% participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in the Geysers. However, because the project financing provided funding for an ownership interest in a PG&E transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued $16,000,000 in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 14.1756% share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 2006, the book value of this Project's plant, equipment and other assets was $4,107,495, while its long-term debt totaled $4,047,104 and other liabilities totaled $60,391. The City's share of the Project's long-term debt amounted to $573,879 at that date.

Combustion Turbine Project No. 2 (Steam Injected Gas Turbine Project)

The City is a participant in a 49.8 megawatt Steam Injected Gas Turbine project which was built under turnkey contract near the City of Lodi and declared substantially complete on April 23, 1996. In October 1992, NCPA issued $152,320,000 of Multiple Capital Facilities Revenue Bonds to finance this project, a similar project for the Turlock Irrigation District in Ceres, and Lodi system facilities. Under the NCPA power purchase agreement, the City is obligated to pay 36.50% of the debt service and operating costs for the Lodi unit.

The City's participation in procurement of natural gas for fuel for existing and new combustion turbine units was approved in 1993. Although there is currently no additional debt financing, the City and NCPA have committed to long-term payments for gas transmission pipeline capacity, and entered a purchase contract for natural gas. The City is obligated to pay 17.9218%.

At June 30, 2006, the book value of this Project's plant, equipment and other assets was $68,829,566, while its long-term debt totaled $65,885,524 and other liabilities totaled $2,944,042. The City's share of the Project's long-term debt amounted to $24,048,216 at that date.

Graeagle Hydroelectric Project

The City's participation in this small hydroelectric project was approved in 1993. Although this project does not involve any financing, it does involve a long-term contractual commitment to purchase the power produced by the project.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

C. *Provision for Disputed SCS Charges*

In November 1999, PG&E filed with FERC its Schedule Coordination Services (SCS) Tariff, alleging that PG&E was entitled to collect from Roseville and other users certain costs imposed by the ISO on PG&E for the period April 1998 to August 2002. In June 2004, PG&E began billing NCPA for these costs, and NCPA, in turn, began billing its members, including Roseville. These costs, which were billed over a twelve-month period, accumulated to approximately $7.4 million, including interest, and were subject to a final determination by the FERC of the amount actually owed. Roseville maintained its position that PG&E had no legal or factual basis for its proposed tariff, and continued to vigorously contest this charge. In fiscal year 2006, the dispute was settled. PG&E returned funds paid by NCPA in excess of the settlement agreement and Roseville's share was $7,933,292 which was added to the General Operating Reserve.

D. *NCPA Financial Information*

NCPA's financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

NOTE 16 – SOUTH PLACER WASTEWATER AUTHORITY

The City is a member of the South Placer Wastewater Authority (SPWA), a joint powers agency which operates under a joint powers agreement among three public agencies, the City of Roseville, South Placer Municipal Utility District and Placer County. The purpose of SPWA is to provide for the planning, financing, acquisition, ownership, construction and operation of the Regional Wastewater Facilities.

Under the terms of a funding agreement, the City will own and operate the Regional Wastewater Facilities. Under the terms of this agreement the member agencies will share the operating costs of the Facilities after construction is complete. The Regional Wastewater Facilities include the Dry Creek Plant and the Pleasant Grove Plant. In November 2000, the SPWA issued Revenue Bonds Series A and Series B in the original principal amounts of $109,775,000 and $70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. On September 2003, the SPWA issued Refunding Revenue Bonds in the original principal amounts of $97,000,000. The purpose of these bonds is to advance refund the 2000 Revenue Bonds Series A. The three agencies are responsible for the repayment of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements, as discussed in Note 9.

During the year ended June 30, 2006, the City paid $5,156,127 to SPWA based on connection fees collected during the fiscal year.

The City records its share of income and expenses from SPWA in the Wastewater Enterprise Fund and these changes are reflected in the Statement of Revenues, Expenses and Changes in Retained Earnings. The City's Interest in SPWA Reserves at June 30, 2006 was $111,170,459.

SPWA's financial statements can be obtained from the City of Roseville, 311 Vernon Street, Roseville, California, 95678.

NOTE 17 - MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions at the Roseville sanitary landfill site, which is closed, through the year 2024. Accordingly, the City has recorded a liability and expense in the Enterprise Solid Waste Fund for the estimated postclosure care cost. The recorded amount is based on applicable state and local laws and regulations concerning closure and postclosure care. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users or the usage of future tax revenues. As of June 30, 2006, landfill closure liability was $3,678,093.

NOTE 18 – COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of its NCPA joint venture agreement, the City is contingently liable for a portion of the bonded indebtedness issued by these agencies under take-or-pay or similar agreements, as discussed in Note 15. The City's estimated share of such debt outstanding at June 30, 2006 was $95,484,244. Under certain circumstances, the City may also be responsible for a portion of the costs of operating these entities. Under certain circumstances, such as default or bankruptcy of other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of the other participants.

The City participates in Federal and State grant programs. These programs have been audited through the fiscal year ended June 30, 2006 by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, other than disclosed above, which is likely to have a material adverse effect on the financial position of the City.

On March 3, 1999 the City entered into an agreement with the State of California, acting by and through its Department of Transportation (CalTrans) to modify the interchange on Route 80 at Douglas Boulevard. The City is responsible for all costs in excess of original cost of construction. As of June 30, 2006, the project is complete, but the City has not yet been billed by CalTrans. The City estimates that its share of the project will be $500 thousand payable to CalTrans for construction, construction engineering, and construction management.

NOTE 18 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

On September 30, 2005 the City signed a Lease and Sublease Agreement with Roseville Investments, LLC for the development of two hotels and a conference center within the North Central Roseville Specific Plan Area. According to the terms of the Agreement, the City will lease the property in an aggregate amount of $10 million from the Developer. The City will advance the lease payments for the public improvements at the site. The Developer will then sublease the public improvements from the City commencing upon the issuance of a certificate of occupancy for the first hotel for a term of ten years. At the end of the 10-year period, the Developer is required to make a balloon payment for any remaining rental payments up to the $10 million.

Construction and Other Commitments

The City has the following outstanding construction commitments at June 30, 2006:

Projects	Amounts
Roseville Energy Park	$42,404,175
WTP Expansion Phase III	26,772,889
Mahany Library	9,524,682
Antelope/PFE Pipeline	4,828,966
Reserve Drive Extension	4,490,530
Re Operation Center	3,879,085
Fire Station #7	3,087,681
William Hughes Park	1,421,270
Blue Oaks Substation	1,248,739
Antelope Creek Bike Trail	1,059,407
Downtown Vernon Specific Plan	732,523
WestPlan Substation	535,178
12KV OH/UG Conversion	514,481

NOTE 19 - TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

The State of California directed that a portion of the incremental property taxes which had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During the fiscal year ended June 30, 2006, the Agency paid $323,743 as a result of the State directive.

NOTE 20-SUBSEQUENT EVENTS

Effective July 1, 2006, the City contracted with ACES Power Marketing (APM) to provide scheduling services for the City's power transmission and supply needs. The City informed NCPA it will withdraw and discontinued its participation in the NCPA Power Pool. NCPA will continue to provide power to the City to meet the needs as scheduled by APM. Withdrawal from NCPA will not relieve the City of its obligations discussed in Note 15.

On November 14, 2006 the Redevelopment Agency issued Project Tax Exempt Allocation Bonds, Project Taxable Tax Allocation Bonds, and Taxable Tax Allocation Housing Bonds in the original principal amounts of $13,155,000, $3,285,000, and $6,505,000, respectively, to fund certain redevelopment and housing activities of benefit to property within the Agency's Roseville Redevelopment Project Area. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenue.

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APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture. Such summary does not purport to be complete, and reference is made to the entire Indenture for full and complete statements of such summarized provisions and all provisions of the Indenture.

DEFINITIONS

"Accountant's Certificate" means a certificate signed by an independent certified public accountant or a firm of independent certified public accountants, selected by the Issuer, who may be the accountant or firm of accountants who regularly audit the books of the Issuer.

"Act" means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended from time to time.

"Authorized Officer" means the Executive Director of the Issuer and any other officer or employee of the Issuer authorized to perform specific acts or duties by resolution duly adopted by the Issuer.

"Beneficial Owner" means, with respect to Bonds registered in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Bond held by the Securities Depository.

"Bond" or "Bonds" means any of the Issuer's Gas Revenue Bonds, Series 2007 authorized by the Indenture.

"Bond Counsel" means an attorney or firms of attorneys of recognized national standing in the field of law relating to municipal bonds and the exclusion of interest on municipal bonds from gross income for federal income tax purposes selected by the Issuer.

"Bond Register" means the books for the registration of the ownership and the transfer of ownership of the Bonds maintained by the Trustee pursuant to the Indenture.

"Business Day" means any day excluding (a) a Saturday or Sunday, any day on which banks located in the State of California or the State of New York, are required or authorized by law or other governmental action to close, and (b) any day on which the New York Mercantile Exchange or the Trustee is closed.

"Commodity Swap" means the ISDA Master Agreement, Schedule and Confirmation between the Issuer and the Swap Counterparty, or any replacement agreement permitted by the Indenture, pursuant to which the Issuer will pay to the Swap Counterparty an index-based floating price and the Swap Counterparty will pay to the Issuer a fixed price in relation to the daily quantities of Gas to be delivered under the Prepaid Gas Agreement.

"Commodity Swap Payments" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Swap Counterparty by the Issuer.

"Commodity Swap Receipts" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Issuer by the Swap Counterparty.

"Debt Service Fund" means the Debt Service Fund established in the Indenture.

"Defeasance Securities" means (a) Government Obligations and (b) time deposits and certificates of deposit to the extent that such deposits or certificates of deposit are Qualified Investments, and such interest-bearing time deposits or certificates of deposit which shall not be subject to redemption or repayment prior to their maturity or due date other than at the option of the depositor or holder thereof or as to which an irrevocable notice of redemption or repayment, or irrevocable instructions have been given to call for redemption or repayment, of such time deposits or certificates of deposit on a specified redemption or repayment date has been given and such time deposits or certificates of deposit are not otherwise subject to redemption or repayment prior to such specified date

other than at the option of the depositor or holder thereof, and which are fully secured by Government Obligations to the extent not insured by the Federal Deposit Insurance Corporation.

"Event of Default" means an event defined as such in the Indenture.

"Fiscal Year" means (a) the twelve (12) Month period beginning on July 1 of each year and ending on the next June 30, or (b) such other twelve (12) Month period established by the Issuer from time to time, upon Written Notice to the Trustee, as its fiscal year.

"Fitch" means Fitch, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Forward Purchase Agreement" means a written agreement among the Trustee, the Issuer and a Qualified Provider to purchase securities which are Qualified Investments for a Fund with moneys to be deposited in such Fund during the term of such agreement.

"Fund" or "Funds" means, as the case may be, each or all of the funds established in the Indenture.

"Funding Agreement" means that certain Funding and Assignment Agreement, dated as of _____, 2007, between the Issuer and the Funding Provider, as the same may be amended and supplemented.

"Funding Guarantee" means the Guarantee, dated _____, 2007, from Merrill Lynch & Co. guaranteeing the payment obligations of the Funding Provider under the Funding Agreement.

"Gas Supply" means the Issuer's purchase of Gas pursuant to the Prepaid Gas Agreement and related contractual arrangements and agreements, and the purchase of any Gas to replace Gas not delivered as required pursuant to the Prepaid Gas Agreement.

"Government Obligations" means

(a) Non-callable obligations which are: (i) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America; or (ii) obligations unconditionally guaranteed as to principal and interest by the United States of America; or (iii) evidences of ownership interests in such direct or unconditionally guaranteed obligations;

(b) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which: (i) are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice; (ii) are rated in the highest Rating Category of S&P and Moody's; and (iii) are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in clause (a) above, which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable notice, as appropriate; and

(c) Any other bonds, notes or obligations of the United States of America or any agency or instrumentality thereof which, if deposited with the Trustee for defeasance purposes, will result in a rating on the Bonds which are deemed to have been paid pursuant to the defeasance provisions of the Indenture that is in the highest Rating Category of each Rating Agency that is then maintaining a rating on such Bonds.

"Interest Payment Date" means February 15 and August 15 of each year, commencing August 15, 2007.

"Internal Revenue Code" means the Internal Revenue Code of 1986.

"Mandatory Termination Payment" shall have the meaning given such term in the Prepaid Gas Agreement.

"Month" means a calendar month.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Municipality" means the City of Roseville, California, a municipal corporation and chartered city of the State.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel addressed to the Issuer and delivered to the Trustee.

"Outstanding," when used with reference to Bonds, means as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(a) Bonds cancelled (or portions thereof deemed to have been cancelled) by the Trustee at or prior to such date;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(c) Bonds deemed to have been paid as provided in Section 12.01.

"Owner" means any Person who shall be the registered owner of any Bond or Bonds.

"Person" means natural persons, firms, associations, corporations and public bodies.

"Principal Installment" means, as of any date of calculation, (a) the principal amount of Bonds due on a certain future date for which no Sinking Fund Installments have been established or (b) the unsatisfied balance (determined as provided in the Indenture) of any Sinking Fund Installments due on a certain future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments.

"Qualified Investments" means any of the following investments, if and to the extent that the same are at the time legal investments of the Issuer's funds:

(a) Government Obligations;

(b) Bonds, debentures, notes and other evidences of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies or corporations:

(1) Federal Home Loan Bank System - senior debt obligations;

(2) Federal Home Loan Mortgage Corporation – participation certificates and senior debt obligations;

(3) Federal National Mortgage Association – mortgage-backed securities and senior debt obligations;

(4) Resolution Funding Corporation;

(5) Farm Credit System – consolidated system-wide bonds and notes

(c) Certificates of deposit and other evidences of deposit at state and federally chartered banks, savings and loan institutions or savings banks deposited and collateralized as required by law;

(d) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;

(e) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one of the two highest Rating Categories of a Rating Agency; or with entities which have collateralized their obligations under such agreements with obligations described in (a) or (b) above;

(f) Corporate bonds rated at least Aa3 by Moody's and AA- by S&P;

(g) Direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest Rating Categories of a Rating Agency;

(h) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by or on behalf of the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of principal of and interest on such obligations, rated in one of the two highest Rating Categories by a Rating Agency;

(i) Money market funds registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, and having a rating by S&P of AAA-m-G AAA-m, or AA-m or a rating by Moody's of Aaa, Aa1, or Aa2; or

(j) Any other investments permitted by applicable law for the investment of the funds of the Issuer which are rated at least Aa3/P-1 by Moody's and AA-/A-1+ by S&P.

"Qualified Provider" means (i) a financial institution which is a domestic or foreign bank, broker-dealer, or insurance company having a long-term debt rating in one of the two highest Rating Categories by Moody's, S&P and Fitch; provided that if such bank, broker-dealer, or insurance company is no longer rated at least Aa3 by Moody's or AA- by S&P or AA- by Fitch, the Trustee and the Issuer shall require such bank, broker-dealer, or insurance company to post such collateral or make such other security arrangements as the Issuer shall determine are appropriate for its interests.

"Rating Agency" means each of Moody's, S&P and Fitch or any other rating agency so designated in a Supplemental Indenture.

"Rating Category" means one or more of the generic rating categories of a Rating Agency, without regard to any refinement or gradation of such rating category or categories by a numerical modifier, plus or minus signs, or otherwise.

"Rating Confirmation" means evidence satisfactory to the Trustee that upon the effectiveness of any proposed action, all Outstanding Bonds will continue to be assigned at least the same or equivalent ratings (including the same or equivalent numerical or other modifiers within a Rating Category) by each Rating Agency then rating such Outstanding Bonds.

"Redemption Price" means, with respect to any Bond, the amount payable upon the redemption thereof pursuant to such Bond or the Indenture other than any amounts due as accrued but unpaid interest.

"Revenue Fund" means the Revenue Fund established in the Indenture.

"Revenues" means: (a) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Issuer from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Issuer under the Supply Agreement, the Prepaid Gas Agreement, the Guarantee, the Customer Insurance Policy or otherwise payable to it for the sale and/or transportation of Gas or otherwise with respect to the Gas Supply; (b) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (c) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to the Indenture and paid or required to be paid into the Revenue Fund; (d) any Commodity Swap Receipts received by the Issuer; and (e) any amounts paid under the Funding Agreement or the Funding Guarantee; but excluding from subsection (a) above the following items (i) any Termination Amount; (ii)

any Unearned Amount; (iii) amounts paid by or on behalf of the Issuer for the mandatory redemption of Bonds pursuant to Section 4.01(b) and (iv) amounts paid under the Supply Agreement after the termination thereof; and excluding from subsection (e) above, any amounts paid as a Mandatory Termination Advance (as defined in the Funding Agreement) and any amounts advanced under the Funding Guarantee in connection with a Mandatory Termination Advance.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if such entity shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Scheduled Debt Service Deposits" means the required Monthly deposits to the Debt Service Fund or the required cumulative deposits in respect of the principal and interest payments coming due on the Bonds on each Interest Payment Date or date for payment of each Principal Installment, as the same may be amended as set forth in the Indenture.

"Sinking Fund Installment" means each amount so designated and set forth in the Indenture.

"State" means the State of California.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture executed and delivered by the Issuer and the Trustee in accordance with the applicable provisions of the Indenture.

"Supply Agreement" means the Natural Gas Supply Agreement, dated as of February 1, 2007, between the Issuer and the Municipality, as the same may be amended from time to time in accordance with the terms thereof and the Indenture.

"Swap Counterparty" means, with respect to the initial Commodity Swap, JP Morgan Chase Bank, N.A., and any successor to the foregoing, or, if any such Commodity Swap is replaced, the counterparty to such replacement Commodity Swap satisfying the requirements of the Indenture.

"Swap Payment Fund" means the Swap Payment Fund established in the Indenture.

"Tax Agreement" means the Tax Certificate and Agreement between the Issuer and the Trustee, dated as of the date of issuance and delivery of the Bonds.

"Tax-Exempt Status of the Bonds" means that the status of the Bonds is such that interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, with the exception that, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings.

"Trustee" means The Bank of New York Trust Company, N. A., and its successor or successors and any other corporation or national banking association which may at any time be substituted in its place pursuant to the Indenture.

"Trust Estate" means (a) the proceeds of the sale of the Bonds, (b) all right, title and interest of the Issuer in, to and under the Prepaid Gas Agreement, the Guarantee and the Supply Agreement, the Funding Agreement and the Funding Guarantee (c) the Revenues, (d) any Termination Amount, (e) any Mandatory Termination Payment and (f) all Funds established by the Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof; subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein.

COMMODITY SWAP

Provisions Regarding Commodity Swap. In connection with the Gas Supply the Issuer shall enter into the initial Commodity Swap with the Swap Counterparty. The following shall apply to the initial Commodity Swap and any replacement Commodity Swap:

(i) The method for the calculation of the Commodity Swap Payments and Commodity Swap Receipts, as applicable, and the scheduled payment dates therefor are set forth in the Indenture.

(ii) Commodity Swap Payments shall be made by the Issuer out of the Swap Payment Fund.

(iii) At any time the Swap Counterparty is rated by a Rating Agency and such the rating by such Rating Agency is not at least Aa3 if rated by Moody's, AA- if rated by S&P, and AA- if rated by Fitch, the Swap Counterparty shall post such collateral or make such security arrangements as are specified in the initial Commodity Swap and at any time the Swap Counterparty is not rated at least A1 by Moody's and A+ by S&P, the Issuer shall use its best efforts to replace such Swap Counterparty and enter into a successor Commodity Swap.

(iv) At the time of entering into a Commodity Swap, each Swap Counterparty shall be a member of International Swaps and Derivatives Association, Inc. and rated at least Aa3 by Moody's and AA- by S&P.

(vi) Commodity Swap Receipts received by the Issuer shall be deposited directly into the Revenue Fund.

The Issuer may replace any Commodity Swap then in effect with a similar agreement upon delivery to the Trustee of a Rating Confirmation.

PAYMENTS ON BONDS

Medium of Payment; Form and Date; Letters and Numbers. The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the date (hereinafter, the "Regular Record Date") which is the 15th day of the Month next preceding such Interest Payment Date.

Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (hereinafter, "Defaulted Interest") shall forthwith cease to be payable to the Person who was the Owner on the relevant Regular Record Date; and such Defaulted Interest shall be paid by the Issuer to the Person in whose names the Bond is registered at the close of business on a date (hereinafter, the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Issuer shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Issuer shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer of such Special Record Date and, in the name and at the expense of the Issuer, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Owner at its address as it appears upon the Bond Register, not less than 10 days prior to such Special Record Date.

Subject to the provisions described above, each Bond delivered under the Indenture upon registration of transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for

redemption less than all of a Bond, the Issuer shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bonds so surrendered, Bonds of like maturity in any of the Authorized Denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed, together with unpaid accrued interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

PLEDGE OF TRUST ESTATE

The Bonds shall be special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate. The Trust Estate is pledged and assigned under the Indenture for the payment of the principal and Redemption Price of and interest on the Bonds in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Trust Estate shall immediately be subject to the lien of the pledge of the Indenture without any further physical delivery thereof or other further act, and the lien of such pledge shall be a first lien and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice thereof.

COVENANTS OF THE ISSUER

Payment of Bonds. The Issuer shall duly and punctually pay or cause to be paid, but solely from the Trust Estate, the principal or Redemption Price, if applicable, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds, according to the true intent and meaning thereof.

Extension of Payment of Bonds. The Issuer shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of Revenues or Funds established by the Indenture, including the investment income, if any, thereof, pledged under the Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Indenture) held by the Trustee, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

Power to Issue Bonds and Pledge the Trust Estate. The Issuer is duly authorized under all applicable laws to create and issue the Bonds and to execute and deliver the Indenture and to pledge the Trust Estate, in the manner and to the extent provided in the Indenture. Except to the extent otherwise provided in the Indenture, the Trust Estate will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, or except as provided in the Commodity Swap subordinate to, the security interest, the pledge and assignment created by the Indenture, and all action on the part of the Issuer to that end has been and will be duly and validly taken. The Bonds and the provisions of the Indenture are and will be the valid and legally enforceable special obligations of the Issuer in accordance with their terms and the terms of the Indenture. The Issuer shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands of all Persons whomsoever.

Power to Fix and Collect Fees and Charges for the Sale of Gas. The Issuer has, and, to the extent permitted by law, will have as long as any Bonds are Outstanding, good right and lawful power to fix, establish, maintain and collect fees and charges for the sale and transportation of Gas or otherwise with respect to the Gas Supply, subject to the terms of the Supply Agreement.

Creation of Liens. The Issuer shall not issue any bonds, notes, debentures or other evidences of indebtedness of similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other assets of the Issuer and shall not create or cause to be created any lien or charge on the Trust Estate or any other assets of the Issuer other than the lien and charge created by the Indenture, and the lien and charge to secure such refunding obligations and the Commodity Swap.

Enforcement and Amendment of Documents. The Issuer shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all amounts payable to it pursuant to the Supply Agreement and all other Revenues. The Issuer shall enforce the provisions of the Supply Agreement, as well as any other contract or contracts entered into relating to the Gas Supply, and duly perform its covenants and agreements thereunder. The Issuer will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with the Supply Agreement which will impair the ability of the Issuer to comply with the provisions of the Indenture; provided that this provision shall not prevent the Issuer from otherwise taking any action under or in connection with the Supply Agreement which is expressly permitted pursuant to the provisions thereof.

The Issuer shall enforce the provisions of the Prepaid Gas Agreement and the Funding Agreement and duly perform its covenants and agreements thereunder and shall enforce the provisions of the Customer Insurance Policy, the Guarantee and the Funding Guarantee. The Issuer will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee or the Guarantee which will in any manner materially impair or materially adversely affect the rights of the Issuer thereunder or the rights or security of the Trustee or the Owners.

Under the Indenture the Issuer irrevocably appoints and directs the Trustee as its agent to issue notices and to take any other actions that the Issuer is required or permitted to take under (i) the Supply Agreement (including the termination thereof upon the default of the Municipality thereunder), (ii) the Prepaid Gas Agreement (including notices to direct the remarketing of Gas and notice designating an "Early Termination Date" thereunder); (iii) the Funding Agreement (including requesting funds thereunder); (iv) the Customer Insurance Policy (including requesting funds thereunder upon an uncured failure by the Municipality to pay); (v) the Funding Guarantee (including requesting funds thereunder) and (vi) the Guarantee (including requesting funds under such Guarantee immediately upon an uncured failure by the Gas Supplier to pay a Gas Payment). In exercising this agency power, the Trustee shall have the same power as the Issuer to take any such actions as it deems necessary under the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee and the Guarantee. Notwithstanding this grant of agency power, the Issuer shall retain, in the absence of any conflicting action by the Trustee, the right to exercise any rights for which it has appointed the Trustee as its agent in accordance with the foregoing; provided however, if an Event of Default has occurred, the Trustee shall have the right to notify the Issuer to cease exercising such rights and, upon receipt of such notice with a copy provided to the Municipality under the Supply Agreement, the Gas Supplier under the Prepaid Gas Agreement, the Funding Provider under the Funding Agreement and the guarantor under the Guarantee and the Funding Guarantee, the Trustee shall have exclusive authority to exercise such rights, and to collect and apply all amounts payable thereunder, until such time as the Trustee issues a subsequent notice otherwise.

The Issuer shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all Commodity Swap Receipts or other amounts payable to it pursuant to the Commodity Swap. The Issuer shall enforce the provisions of the Commodity Swap and duly perform its covenants and agreements thereunder. The Issuer will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with any Commodity Swap which will impair the ability of the Issuer to comply with the provisions of the Indenture.

Upon the failure of the Gas Supplier to pay any amount due under the Prepaid Gas Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Guarantee. Upon the failure of the Advance Provider to pay any amount due under the Funding Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Funding Guarantee.

Accounts and Reports. The Issuer shall keep or cause to be kept with respect to the Gas Supply proper books of record and account (separate from all other records and accounts) in accordance with generally accepted accounting principles, as such may be modified by the provisions of the Indenture, in which complete and correct entries shall be made of its transactions relating to the Gas Supply, the amount of Revenues and the application thereof and each Fund established under the Indenture and relating to its costs and charges under the Supply Agreement and any other contracts for the sale or purchase of Gas, and which, together with the Prepaid Gas Agreement and all contracts and all other books and papers of the Issuer relating to the Gas Supply, shall, subject to the terms thereof, at all times during regular business hours be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The Issuer shall file with the Trustee (i) forthwith upon becoming aware of any Event of Default or default in the performance by the Issuer of any covenant, agreement or condition contained in the Indenture, a written certificate of the Issuer and specifying such Event of Default or default and (ii) within 180 days after the end of each Fiscal Year, commencing with the first Fiscal Year ending following the issuance of the Bonds, a written certificate of the Issuer signed by an Authorized Officer stating whether, to the best of such Authorized Officer's knowledge and belief, the Issuer has kept, observed, performed and fulfilled its covenants and obligations contained in the Indenture and that there does not exist at the date of such certificate any default by the Issuer under the Indenture or any Event of Default or other event which, with the giving of notice or the lapse of time, or both, would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specifying the same and the nature and status thereof.

The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Indenture shall be available for the inspection of Owners at the office of the Trustee and shall be mailed to each Owner who shall file a written request therefor with the Issuer. The Issuer may charge each Owner requesting such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

Tax Covenants. The Issuer covenants that it shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the Tax-Exempt Status of the Bonds under Section 103 of the Internal Revenue Code and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the Issuer covenants that it will comply with the instructions and requirements of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

In the event that at any time the Issuer is of the opinion that it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such action as specified in such instructions.

If the Issuer shall provide to the Trustee an Opinion of Bond Counsel that any specified action required by the tax covenants in the Indenture is no longer required or that some further or different action is required to maintain the Tax-Exempt Status of the Bonds, the Issuer and the Trustee may conclusively rely on such opinion in complying with the tax covenants in the Indenture and of the Tax Agreement, and the tax covenants shall be deemed to be modified to that extent.

Upon the Issuer's failure to observe or refusal to comply with the tax covenants in the Indenture, the Owners, or the Trustee acting on their behalf pursuant to their written request and direction, shall be entitled to the rights and remedies provided to the Owners under the Indenture, which in do not include upon a covenant default, the right to declare the principal of any Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately.

General. The Issuer shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Issuer under the provisions of the Act and the Indenture.

The Issuer shall not consolidate or amalgamate with, or merge with or into, or transfer all or substantially all its assets to, or reorganize, reincorporate or reconstitute into or as, another entity unless, (i) prior to such event, the Issuer receives confirmation from the Swap Counterparty that such event does not trigger a termination event under the Commodity Swap then in effect; and (ii) at the time of such consolidation, amalgamation, merger, transfer, reorganization, reincorporation or reconstitution, the resulting, surviving or transferee entity assumes all the obligations of the Issuer under the Commodity Swap.

The Issuer shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the ratings on the Bonds.

Upon the date of authentication and delivery of any of the Bonds, all conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in connection with the issuance of such Bonds shall exist, have happened and have been performed in due time, form and manner, and the issuance of such Bonds, together with all other obligations of the Issuer, shall comply in all respects with the applicable laws of the State.

The Issuer shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Issuer under the provisions of the Act and the Indenture.

Maintenance of Investment Revenues. At any and all times that any Forward Purchase Agreement is no longer provided by a Qualified Provider, the Issuer shall replace such Forward Purchase Agreement with a replacement Forward Purchase Agreement with a Qualified Provider containing substantially the same terms as the replaced Forward Purchase Agreement. In the event that there is no such replacement or such replacement generates lower investment income, the Issuer shall increase the Contract Price by an amount that is sufficient to cover such loss of investment income.

EVENTS OF DEFAULT AND REMEDIES

Events of Default. Any one or more of the following shall constitute an Event of Default under the Indenture:

(a) default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;

(b) default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment when and as such interest installment or Sinking Fund Installment shall become due and payable;

(c) a determination by the Trustee on the third day after the 25th day of any Month, or if such day is not a Business Day on the nest succeeding Business Day, after the transfer of amounts from the Revenue Fund pursuant to the Indenture, that the amount on deposit in the Debt Service Fund (including for purposes of this computation, interest accrued on such deposits and investment income that remains on deposit in such Fund) is not at least equal to the cumulative Scheduled Debt Service Deposits for such Month specified in the Indenture;

(d) default shall be made by the Issuer in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default shall continue for a period of 60 days or, if such default cannot reasonably be remedied within such 60 day period, such longer period so long as diligent efforts are being made to remedy such default, after written notice thereof specifying such default and requiring that it shall have been remedied and stating that such notice is a "Notice of Default" hereunder is given to the Issuer by the Trustee or to the Issuer and to the Trustee by the Owners of not less than 10% in principal amount of the Bonds Outstanding;

(e) the Issuer shall commence a voluntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Issuer is unable to meet its debts with respect to the Gas

Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or shall authorize, apply for or consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefrom, or shall make any general assignment for the benefit of creditors, or shall make a written declaration or admission to the effect that it is unable to meet its debts with respect to the Gas Supply as such debts mature, or shall authorize or take any action in furtherance of any of the foregoing;

(f) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Issuer in an involuntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or a decree or order appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefrom, or a decree or order for the dissolution, liquidation or winding up of the Issuer and its affairs or a decree or order finding or determining that the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature, and any such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; and

(g) there shall occur any other Event of Default specified in a Supplemental Indenture.

In each and every such case, other than an Event of Default described in clause (d), (e) or (g) above, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, the Trustee (by notice in writing to the Issuer), or the Owners of not less than a majority in principal amount of the Bonds Outstanding (by notice in writing to the Issuer and to the Trustee) may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding. In the case of an Event of Default described in clause (e) or (f) above, the Trustee shall, without further action, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, anything in the Indenture or in the Bonds to the contrary notwithstanding. In the case of an Event of Default described in clause (d) or (g) above, unless the principal amount of all the Bonds shall have already become due and payable, the Trustee or the Owners of not less than a majority in principal amount of the Bonds Outstanding (after notice to the Trustee) may bring a suit in any court of competent jurisdiction to compel specific performance. The right of the Trustee or of the Owners of not less than a majority in principal amount of the Bonds Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with the reasonable fees, charges, expenses and liabilities of the Trustee, and all other sums then payable by the Issuer under the Indenture (except the principal of, and interest accrued since the next preceding Interest Payment Date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Issuer or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Owners of a majority in principal amount of the Bonds Outstanding, by written notice to the Issuer and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written directions to the contrary by the Owners of a majority in principal amount of the Bonds Outstanding, then any such declaration shall *ipso facto* be deemed to be rescinded and any such default shall *ipso facto* be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Accounting and Examination of Records After Default. The Issuer covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of the Issuer and all other records relating to the Gas Supply shall at all times during regular business hours be subject to the inspection and use of the Trustee and of its agents and attorneys.

Application of Moneys After Default; Enforcement of Agreements. The Issuer covenants that if an Event of Default shall happen and shall not have been remedied, the Issuer, upon the demand of the Trustee, shall (i) to the extent not previously so granted, grant to the Trustee the rights and remedies afforded the Issuer in the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Guarantee, the Funding Agreement and the Funding Guarantee and (ii) pay over or cause to be paid over to the Trustee all Revenues which are not paid directly to the Trustee as promptly as practicable after receipt thereof. During the continuance of an Event of Default, the Trustee shall continue to apply all Revenues received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture and any moneys in the Funds held by the Trustee hereunder as provided in the Indenture before the occurrence of such Event of Default.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable charges, expenses and liabilities of the Trustee, and all other sums payable by the Issuer under the Indenture, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Issuer, or provisions satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, thereupon the Issuer, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such restoration of the Issuer, the Trustee and the Owners to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Appointment of Receiver. The Trustee shall have the right, upon the happening of an Event of Default, to apply in an appropriate proceeding for the appointment of a receiver of the Gas Supply.

Proceedings Brought by Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Owners under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Issuer as if the Issuer were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners.

Restriction on Owner's Action. No Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture unless such Owner (i) shall have previously given to the Trustee written notice of the happening of an Event of Default and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee to take such action, (ii) shall have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the laws of the State or to institute such action, suit or proceeding in its own name, and (iii) shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided;

and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay, but only from the Trust Estate, in accordance with the terms of the Indenture, at the respective dates of maturity and places therein expressed the principal or Redemption Price of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of execution and delivery of the Indenture.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The Issuer and the Trustee may from time to time, subject to the conditions and restrictions in the Indenture contained, enter into a Supplemental Indenture or Indentures which shall thereafter form a part of the Indenture, without the consent of the Owners, for any one or more of the following purposes:

(a) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture;

(b) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect;

(c) To make any other modification or amendment of the Indenture which will not have a material adverse effect on the Owners;

(d) To add to the covenants and agreements of the Issuer in the Indenture, other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(e) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(f) To authorize, in compliance with all applicable law, Bonds to be issued in the form of coupon Bonds registrable as to principal only and, in connection therewith, specify and determine the matters and things relative to the issuance of such coupon Bonds, including provisions relating to the timing and manner of provision of any notice required to be given hereunder to the Owners of such coupon Bonds, which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such coupon Bonds;

(g) To provide for the execution of a Commodity Swap in accordance with the provisions hereof;

(h) To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Indenture of the Revenues or of any other moneys, securities or funds;

(i) To add to the Events of Default in the Indenture additional Events of Default;

(j) To add to the Indenture any provisions relating to the application of interest earnings on any Fund under the Indenture required by law to preserve the Tax-Exempt Status of the Bonds;

(k) To evidence the appointment of a successor Trustee; or

(l) If the Bonds affected by such change are rated by a Rating Agency, to make any change upon receipt of a Rating Confirmation with respect to the Bonds so affected.

In making any determination under subsection (c), the Issuer and the Trustee may rely upon an Opinion of Counsel and/or certificates of investment bankers or other financial professionals or consultants.

Supplemental Indentures Effective With Consent of Owners. At any time or from time to time, a Supplemental Indenture may be entered into by the Issuer and the Trustee providing for any modification or amendment of the Indenture and of the rights and obligations of the Issuer and of the Owners of the Bonds thereunder with the written consent of the Owners of not less than a majority in principal amount of Outstanding Bonds; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like 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 Outstanding Bonds for purposes of such modification or amendment. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Bond or any Sinking Fund Installment for a Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or any Sinking Fund Installment for a Bond or in the rate of interest thereon without the consent of the Owner of the affected Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written assent thereto.

Exclusion of Bonds. Bonds owned or held by or for the account of the Issuer shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the Indenture with respect to amendments and supplements to the Indenture, and the Issuer shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the Indenture with respect to such amendments and supplements. At the time of any consent or other action taken with respect to amendments and supplements to the Indenture, the Issuer shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

DEFEASANCE

If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Indenture, then the pledge of the Trust Estate, and all covenants, agreements and other obligations of the Issuer to the Owners made hereunder, shall thereupon cease, terminate and be discharged and satisfied. In such event, the Trustee shall pay over or deliver to the Issuer all moneys or securities held by it pursuant to the Indenture which are not required for the payment of principal or Redemption Price, if applicable, of or interest on Bonds not theretofore surrendered for such payment or redemption. If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of any Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Issuer to the Owners of such Bonds shall thereupon cease, terminate and be discharged and satisfied except for remaining rights of registration of transfer and exchange of Bonds.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Issuer of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed above.

Any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to mail notice of redemption of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by an Accountant's Certificate), to pay when due the principal or Redemption Price, if applicable, of and the interest due and to become due on said Bonds on or prior to the redemption date or maturity

date thereof, as the case may be, and (iii) in the event said Bonds are not to be redeemed or paid within the next succeeding 60 days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the Owners of such Bonds at their last addresses appearing upon the Bond Register at the close of business on the last Business Day of the Month preceding the Month for which notice is mailed that the deposit described above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

The Trustee shall, as and to the extent necessary, apply moneys held by it pursuant to the defeasance provisions of the Indenture to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Indenture. The Trustee shall, if so directed by the Issuer (A) prior to the maturity date of Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity or (B) prior to the mailing of the notice of redemption referred to above with respect to any Bonds which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and, the Trustee shall immediately thereafter cancel all such Bonds so purchased; *provided, however*, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds (or the deemed cancellation thereof) shall be sufficient (as evidenced by an Accountant's Certificate) to pay when due the Principal Installments or Redemption Price, if applicable, and interest due or to become due on all defeased Bonds not so purchased. With respect to such cancelled Bonds, the Issuer may direct the Trustee as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with the Indenture. Except as otherwise provided in the Indenture, neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the defeasance provisions of the Indenture nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities, (x) to the extent such cash will not be required at any time for such purpose (as evidenced by an Accountant's Certificate), shall be paid over to the Issuer as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Indenture, and (y) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient (as evidenced by an Accountant's Certificate), together with the other funds and Defeasance Securities then held by the Trustee for such purpose to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds, and interest earned from such reinvestments shall be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such Bonds became due and payable, shall, at the written request of the Issuer, be repaid by the Trustee to the Issuer, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Issuer for the payment of such Bonds; *provided, however*, that before being required to make any such payment to the Issuer the Trustee shall, at the expense of the Issuer, mail by first class mail, postage prepaid, to the Owners of such Bonds at the addresses of such Owners in the Bond Register, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the Issuer.

MISCELLANEOUS

Evidence of Signatures of Owners and Ownership of Bonds. Any request, consent or other instrument which the Indenture may require or permit to be signed and executed by the Owners may be in one or more instruments of similar tenor, and, except as otherwise provided in the Indenture, shall be signed or executed by such Owners in person or by their attorneys appointed in writing. Proof of (1) the execution of any such instrument, or of

an instrument appointing any such attorney, or (2) the holding by any Person of the Bonds shall be sufficient for any purpose of the Indenture (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The fact and date of the execution by any Owner or its attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the Person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature, guarantee, certificate or affidavit shall also constitute sufficient proof of its authority.

The ownership of Bonds and the amount, numbers and other identification, and date of holding the same, shall be proved by the Bond Register.

Any request or consent by the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the Issuer or the Trustee in accordance therewith.

No Recourse on the Bonds. None of the members of the Issuer, the members of the Board of Directors of the Issuer, any person executing a Bond, or any officer or employee of the Issuer shall be liable personally for the principal or Redemption Price of, or interest on, the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or in respect of any undertaking by the Issuer under the Indenture.

APPENDIX D — SCHEDULE OF DAILY CONTRACT QUANTITIES

Month	Daily Contract Quantity (MMBtu/Day)
January	6,000
February	5,000
March	2,500
April	2,500
May	3,000
June	4,500
July	12,000
August	12,000
September	10,000
October	6,000
November	8,000
December	5,500

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Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy of the description contained therein of, or the remedies available to enforce liens on, any of such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Trust Estate which pledge is subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein.

3. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture, which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture. Neither the faith and credit nor the taxing power of the State of California, the Authority, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds and the issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State of California or any public agency, including the Municipality, other than the special obligation of the Authority as provided in the Indenture.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF ROSEVILLE, CALIFORNIA

relating to:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS, Series 2007

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF ROSEVILLE (the "City"), for and on behalf of itself and the Roseville Natural Gas Financing Authority (the "Authority"), in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered by The Bank of New York Trust Company, N. A., as trustee (the "Trustee"), in accordance with a Trust Indenture, dated as of February 1, 2007 (the "Indenture"), by and between the Authority and the Trustee. 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 registered and beneficial owners of the Bonds and in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth 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 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.

"*Dissemination Agent*" means The Bank of New York Trust Company, N. A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as they may be designated from time to time pursuant to the Rule. Any filing under this Disclosure Certificate with a National Repository may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

"*Official Statement*" means the Official Statement relating to the Bonds.

"*Purchaser*" means Merrill Lynch & Co., the initial purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Report Date*" means seven months after the end of the City's fiscal year, (currently January 31 of each year based on the City's June 30 fiscal year end).

"*Repository*" means each National Repository and each State Repository.

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

"*State Repository*" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Report Date, beginning on January 31, 2008, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee, Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy) and the Purchaser. Not later than 15 Business Days before the Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). 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. The audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Report Date, if not available by the Report 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 and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City under this Disclosure Certificate.

(b) If the City is unable to provide to the Repositories an Annual Report by the Report Date, the City shall, by written direction, cause the Dissemination Agent to provide to each Repository and to the Municipal Securities Rulemaking Board and each State Repository (with a copy to the Trustee and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy)) a notice, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Report Date the name and address of each National Repository and each State Repository, if any; 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, stating the date it was provided and listing all the Repositories to which it was provided.

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

(a) Audited Financial Statements of the City, which shall include financial statements of the City's municipal electric power utility (the "Electric System") 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 City's audited financial statements are not available by the 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 prior to the Report Date, the following financial information and operating data with respect to the City and the Electric System for the preceding fiscal year as of June 30 of the previous fiscal year:

(1) The principal amount of the outstanding Bonds.

(2) The balance in the Rate Stabilization Fund.

(3) An updated table substantially in the form of Table 1 in Exhibit A to the Official Statement entitled "Customers, Sales and Demand."

(4) An updated table substantially in the form of Table 2 in Exhibit A to the Official Statement entitled "Ten Largest Customers."

(5) An updated table substantially in the form of Table 3 in Exhibit A to the Official Statement entitled "Sources of Power Supply."

(6) An updated table substantially in the form of Table 7 in Exhibit A to the Official Statement entitled "City Share of Outstanding Joint Powers Agencies Debt."

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 have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

(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.

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:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.

(vii) Modifications to rights of Bond owners.

(viii) Contingent or unscheduled prepayment of Bonds.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) 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, by written direction, cause the Dissemination Agent to promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee, the Purchaser and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy), together with written direction to the Trustee whether or not to notify the Bond owners of the filing of such notice. In the absence of any such direction, the Trustee shall not send such notice to the Bond owners. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment 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 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N. A. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 8. 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

APPENDIX E — FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds in definitive form, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Issuer, proposes to render its opinion in substantially the following form:

Date of Delivery

Board of Directors
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, California 95678

Re: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Roseville Natural Gas Financing Authority (the "Authority") in connection with the issuance of $_____ aggregate principal amount of its Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Agreement for the Purchase and Sale of Natural Gas (the "Prepaid Gas Agreement"), dated January __, 2007 between the Authority and Merrill Lynch Commodities, Inc., the Natural Gas Supply Agreement (the "Supply Agreement"), dated as of February 1, 2007 between the Authority and the City of Roseville (the "Municipality"), the Tax Agreement, dated the date hereof, relating to the Bonds (the "Tax Agreement"), certificates of the Authority, the Municipality, the Trustee and others, opinions of counsel to the Authority, the Municipality, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Prepaid Gas Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court 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 or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the

(c) the proposed amendment or waiver either (i) is approved by owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the registered 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 of this Section, the first annual financial information filed pursuant to this Disclosure Certificate 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 sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. 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 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Purchaser or the owners of at least 25 percent aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any registered 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 Indenture, 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 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee 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 and the Trustee, their 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 or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, but shall terminate upon the termination of the City's obligations under this Disclosure Certificate pursuant to Section 6 of this Disclosure Certificate.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the City:	City of Roseville 311 Vernon Street Roseville, California 95678 Attention: Administrative Services Director Fax: (916) 774-5514
To the Trustee:	The Bank of New York Trust Company, N.A. 550 Kearny Street, Suite 600 San Francisco, California 94108 Attention: Corporate Trust Department Fax: (415) 399-1647
To the Purchaser:	Merrill Lynch & Co. Global Markets and Investment Banking 101 California Street San Francisco, CA 94111 Attention: Mr. Ed Burdett, Managing Director Fax: (415) 676-3351

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Purchaser and registered 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: _____, 2007

CITY OF ROSEVILLE

By: _____
Authorized Representative

ACCEPTED AND AGREED:

The Bank of New York Trust Company, N. A.,
as Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: CITY OF ROSEVILLE

Name of Issue: $_____ Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007

Date of Issuance: _____, 2007

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 as of _____, 2007. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT

By: _____

Title:

cc: Trustee

APPENDIX G — SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS

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NEW ISSUE—BOOK-ENTRY ONLY

RATINGS:
Moody's: Aa3
Standard & Poor's: AA-
Fitch: AA-
(See "RATINGS" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

Dated: Date of Issuance **Due: February 15, as shown on the inside cover**

The Roseville Natural Gas Financing Authority (the "*Issuer*") is issuing its Gas Revenue Bonds, Series 2007 (the "*Bonds*") under a Trust Indenture dated as of February 1, 2007 (the "*Indenture*"), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "*Trustee*"), to finance the cost of acquiring a twenty-year supply of natural gas for the City of Roseville, California (the "*City*," and from time to time, the "*Municipality*") at a discount from the Index Price (defined herein) pursuant to an Agreement for Purchase and Sale of Natural Gas dated as of January 24, 2007 (the "*Prepaid Gas Agreement*"), between the Issuer and Merrill Lynch Commodities, Inc. (the "*Seller*"). All of the gas purchased by the Issuer will be sold to the Municipality pursuant to a Natural Gas Supply Agreement dated as of February 1, 2007 (the "*Supply Agreement*"), between the Issuer and the Municipality and is expected to be used in the Municipality's electrical power generating facilities. See "THE GAS SUPPLY ACQUISITION" herein.

Interest on the Bonds is payable semiannually on February 15 and August 15 of each year, commencing August 15, 2007. The Bonds will be issued in book-entry form through the facilities of The Depository Trust Company ("*DTC*"). Payments of principal of, premium, if any, and interest on the Bonds will be made directly to DTC, and will subsequently be disbursed to DTC Participants and thereafter to Beneficial Owners of the Bonds, all as described herein. See "TERMS OF THE BONDS—Book-Entry Only System" herein. The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "TERMS OF THE BONDS" herein.

The proceeds of the Bonds will be used to (i) finance the Prepayment under the Prepaid Gas Agreement, (ii) fund capitalized interest, (iii) pay the premium for the Customer Insurance Policy (defined below) and (iv) pay all or a portion of the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price (defined herein) thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate (defined herein) pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues (defined herein) and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State of California (the "*State*"), the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture). The payment obligations of the Municipality under the Supply Agreement are limited obligations payable solely from the Municipality's electrical utility system revenues. In no event will the Municipality be obligated to exercise the power of taxation in order to make such payments. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein.

The obligations of the Municipality to pay the Issuer for gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed by Financial Security Assurance Inc. ("*FSA*") pursuant to a financial guaranty insurance policy issued by FSA to the Issuer and assigned by the Issuer to the Trustee (the "*Customer Insurance Policy*"). The Customer Insurance Policy insures only the payments required to be made by the Municipality for the gas delivered or deemed delivered pursuant to the Supply Agreement and does not insure other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC." herein.

The Seller's payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (the "*Seller Guarantor*") pursuant to a guarantee (the "*Seller Guarantee*") in favor of the Issuer. The Seller Guarantee guarantees only the payments required to be made by the Seller under the Prepaid Gas Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE" herein.

The Issuer and the Seller will enter into a funding and assignment agreement dated as of February 1, 2007 (the "*Funding Agreement*"). The Funding Agreement provides that the Seller will advance funds to the Issuer under certain circumstances in the event there is a deficiency in the Termination Fund or a deficiency in the Debt Service Fund. Under certain other circumstances, the obligation of the Seller to make any such advance to cover fund deficiencies is within the sole determination and discretion of the Seller. The Seller's obligations under the Funding Agreement will be guaranteed under a funding guarantee (the "*Funding Guarantee*") provided by the Seller Guarantor. The Funding Guarantee guarantees only the payments required to be made by the Seller under the Funding Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement" and "—The Prepaid Gas Agreement" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE" herein.

The Bonds are offered, when, as and if issued by the Issuer and accepted by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Issuer, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, San Francisco, California. Certain legal matters will be passed upon for the Issuer by the City Attorney of the City of Roseville, California (the "*City Attorney*") as Issuer's Counsel. Certain legal matters will be passed upon for the Municipality by the City Attorney. It is expected that the Bonds will be available for delivery through DTC on or about February 6, 2007.

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

Merrill Lynch & Co.

Official Statement Dated: January 24, 2007

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

Maturities, Amounts, Interest Rates, Yields and CUSIPS†

MATURITY (February 15)	PRINCIPAL AMOUNT	INTEREST RATE	YIELD	CUSIP†
2009	$ 6,645,000	4.000%	3.770%	777863AA9
2010	6,650,000	4.000	3.830	777863AB7
2011	6,915,000	5.000	3.850	777863AC5
2012	7,265,000	5.000	3.880	777863AD3
2013	7,675,000	5.000	3.930	777863AE1
2014	8,030,000	5.000	3.970	777863AF8
2015	8,435,000	5.000	4.000	777863AG6
2016	8,860,000	5.000	4.050	777863AH4
2017	9,345,000	5.000	4.090	777863AJ0
2018	9,780,000	5.000	4.130	777863AK7
2019	10,275,000	5.000	4.160	777863AL5
2020	10,800,000	5.000	4.190	777863AM3
2021	11,385,000	5.000	4.220	777863AN1
2022	11,920,000	5.000	4.240	777863AP6
2023	12,520,000	5.000	4.260	777863AQ4
2024	13,155,000	5.000	4.280	777863AR2
2025	13,865,000	5.000	4.290	777863AS0
2026	14,530,000	5.000	4.310	777863AT8
2027	15,265,000	5.000	4.330	777863AU5
2028	16,035,000	5.000	4.340	777863AV3

† Copyright 2007, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. The Issuer and the Underwriter do not assume responsibility for the accuracy of such numbers.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
311 Vernon Street
Roseville, California 95678

DIRECTORS AND OFFICERS OF THE ISSUER

Jim Gray	Mayor/Chair
Gina Garbolino	Mayor Pro Tem/Vice Chair
Richard Roccucci	City Council Member/Board Member
Carol Garcia	City Council Member/Board Member
John Allard	City Council Member/Board Member
Craig Robinson	City Manager/Executive Director
Sonia Orozco	City Clerk/Secretary
Russ Branson	Administrative Services Director/Treasurer

TRUSTEE

The Bank of New York Trust
Company, N.A.
San Francisco, California

FINANCIAL ADVISOR

McDonald Partners, Inc.
Alamo, California

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

* The Issuer is a joint action agency created by the City and the City of Roseville Redevelopment Authority. The City is governed by a five-member council, each member of which serves on the Board of Directors of the Issuer and the Board of Directors of the Redevelopment Authority. Currently, the officers of the Issuer are employees of the City. See "THE ISSUER" herein.

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Municipality, FSA, the Seller, Seller Guarantor or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Municipality since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

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.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR WITH ANY STATE SECURITIES COMMISSION.

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

Other than with respect to information concerning Financial Security Assurance Inc. ("FSA") contained under the caption "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.," none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

The CUSIP numbers are included in this Official Statement for the convenience of the owners and potential owners of the Bonds. No assurance can be given that the CUSIP numbers for a particular maturity of Bonds will remain the same after the date of issuance and delivery of the Bonds. None of the Issuer, the Trustee or the Underwriter assumes any responsibility for the accuracy of such numbers.

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OFFICIAL STATEMENT

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

INTRODUCTION

This introduction is only a brief review of, and is qualified by more complete information contained elsewhere in, this Official Statement, including the cover page and the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

This Official Statement, including its appendices, is furnished to provide certain information in connection with the issuance and sale of $209,350,000 in aggregate principal amount of Gas Revenue Bonds, Series 2007 (the "*Bonds*") of the Roseville Natural Gas Financing Authority (the "*Issuer*"). The Issuer is a joint exercise of powers agency and public entity of the State of California that has been organized for the purpose, *inter alia*, of acquiring, financing, and supplying natural gas for the City of Roseville, California (the "*City*" and, from time to time, the "*Municipality*") at a discount from the Index Price (which means, for each Delivery Month and each day within a Delivery Month, the first of the month index for such Delivery Month stated in U.S. Dollars, published under the heading "Spot Gas Prices; California: PG&E Citygate: avg." as reported by Natural Gas Intelligence in the relevant issue of NGI's Bidweek Survey). See "THE ISSUER" and "THE GAS SUPPLY ACQUISITION."

Certain capitalized terms used in this Official Statement are used with the meanings assigned to such terms in "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." In addition, certain capitalized terms used to describe provisions of the Prepaid Gas Agreement and the Supply Agreement (each defined herein) are defined under the caption "THE GAS SUPPLY ACQUISITION" or in such respective documents.

The Bonds will be issued under a Trust Indenture, dated as of February 1, 2007 (the "*Indenture*"), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "*Trustee*"). The net proceeds from the sale of the Bonds will be used to make a lump sum prepayment (the "*Prepayment*") to Merrill Lynch Commodities, Inc. (the "*Seller*") to acquire a supply of natural gas (the "*Gas Supply*") for delivery over a period of twenty years for its customer, the Municipality. The Gas Supply is being purchased by the Issuer from the Seller pursuant to an Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "*Prepaid Gas Agreement*"), between the Issuer and Seller. The Gas Supply being purchased pursuant to the Prepaid Gas Agreement will be sold by the Issuer to the Municipality pursuant to a Natural Gas Supply Agreement, dated as of February 1, 2007 (the "*Supply Agreement*"), between the Issuer and the Municipality.

The Issuer is entering into the Prepaid Gas Agreement and the Municipality and the Issuer are entering into the Supply Agreement in order to secure for the Municipality a fixed quantity of natural gas. The Municipality will pay the Issuer a variable price based on a specified discount to the monthly market index for the Municipality's delivery point, the Pacific Gas and Electric Company Citygate ("*PG&E Citygate*"), for all gas delivered or deemed delivered under the Supply Agreement (the "*Contract Price*"). Failure by the Municipality to pay for gas delivered within two Business Days of when such payment is due will result in an immediate termination of the Supply Agreement and an obligation of the Seller to

remarket the Gas Supply pursuant to the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Supply Agreement."

The foregoing descriptions of the Prepaid Gas Agreement and the Supply Agreement are very brief summaries of the provisions of such agreements. Prospective purchasers of the Bonds should carefully review the summaries of certain provisions of the Prepaid Gas Agreement and the Supply Agreement contained under the caption "THE GAS SUPPLY ACQUISITION."

The price received by the Issuer for gas sold to the City will be hedged by a commodity price swap agreement (the "*Commodity Swap*") between the Issuer and JPMorgan Chase Bank, N.A. (the "*Swap Counterparty*"), under terms that are expected to enable the Issuer to receive a revenue stream with respect to the sale of such gas that is substantially fixed for the life of the Prepaid Gas Agreement. "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge."

In order to hedge its exposure under the Prepaid Gas Agreement, the Seller will enter into a separate commodity price swap agreement (the "*Seller Swap Agreement*") with the Swap Counterparty under which the Seller will pay a fixed gas price to the Swap Counterparty in return for the Swap Counterparty's payment to the Seller of a variable gas price based on the first of the month market index for PG&E Citygate. Nothing in the Seller Swap Agreement relieves the Seller of its obligation to perform under the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge."

The Indenture authorizes the Issuer and the Trustee to enter into a Forward Purchase Agreement with a Qualified Provider to purchase securities which are Qualified Investments with moneys to be deposited in the Debt Service Fund during the term of such Forward Purchase Agreement. The timely performance of the Qualified Provider may be necessary for the Issuer to have adequate funds to pay debt service on the Bonds. See "BONDOWNERS' RISKS—Performance of Qualified Provider" and "—Structured Financing." The Issuer and the Trustee will enter into a debt service forward delivery agreement dated as of February 1, 2007 (the "*Wachovia Forward Purchase Agreement*") with Wachovia Bank, National Association ("*Wachovia*").

The obligations of the Municipality under the Supply Agreement are generally limited to the payment of the Contract Price for gas delivered or deemed delivered to the delivery point specified in the Supply Agreement. The Municipality is obligated to make payments to the Issuer under the Supply Agreement if and only if gas is actually delivered (or deemed delivered) to the delivery point set forth in the Supply Agreement. The Municipality's payment obligations pursuant to the Supply Agreement are payable as operation expenses from the revenues of the Municipality's electric utility system. The Municipality's payments for gas delivered or deemed delivered pursuant to the Supply Agreement (and only such payments) will be guaranteed by Financial Security Assurance Inc. ("*FSA*") pursuant to a financial guaranty insurance policy issued by FSA in favor of the Issuer (the "*Customer Insurance Policy*"). Other payments that may be payable by the Municipality to the Issuer under the Supply Agreement will not be covered by the Customer Insurance Policy. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Upon the occurrence of any of certain "Triggering Events" under the Prepaid Gas Agreement or (a) the imposition of certain taxes or (b) certain changes in applicable law and, in either case (a) or (b), the parties have been unable to equitably adjust their rights and obligations in light of such circumstances as provided in the Prepaid Gas Agreement (the "*Section 17 Events*"), the Prepaid Gas Agreement may be terminated and, upon such termination, amounts due by a party to the other party, including the Termination Amount (as defined in the Prepaid Gas Agreement) to be paid by the Seller, is to be invoiced

and paid in accordance with the Prepaid Gas Agreement. See "THE GAS SUPPLY ACQUISITION." The Seller's payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (the "*Seller Guarantor*") pursuant to a guarantee (the "*Seller Guarantee*") in favor of the Issuer. The Seller Guarantee guarantees only the payments required to be made by the Seller under the Prepaid Gas Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION" and "THE SELLER, THE SELLER GUARANTOR AND THE SELLER GUARANTEE."

The Issuer and the Seller will enter into a funding and assignment agreement dated as of February 1, 2007 (the "*Funding Agreement*"). The Funding Agreement provides that the Seller will advance funds to the Issuer: (a) in the event that upon the early termination of the Prepaid Gas Agreement the amount in the Termination Fund, after the deposit in the Termination Fund of the Termination Amount due by the Seller under the Prepaid Gas Agreement and the transfer to the Termination Fund of amounts in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund, is less than the Redemption Price necessary to redeem the Bonds, including accrued interest to the Early Redemption Date and the amount necessary to pay a termination payment, if any, to the Qualified Provider, unless such deficiency was caused by a payment default by the Swap Counterparty (a *"Covered Termination Deficiency"*) or (b) in the event that there is a deficiency in the Debt Service Fund on any date because the Issuer has failed to receive regularly scheduled swap payments under the Commodity Swap due to the occurrence of (i) a termination event under the Commodity Swap where the Swap Counterparty is the affected party or (ii) an Issuer default under the Commodity Swap, and such failure occurs on or after the applicable termination event or event of default but prior to the date on which the Commodity Swap is either terminated in accordance with its terms or, if the Commodity Swap is assigned in accordance with its terms, the date on which regularly scheduled swap payments by the successor counterparty commence (a *"Covered Swap Deficiency"*). If there is a shortfall in the Debt Service Fund, the Swap Payment Fund or the Termination Fund for any other reason (a "*Covered General Deficiency*"), the Seller has the right, within its sole determination and discretion, to make an advance to cover such Fund deficiency. The Seller's obligations under the Funding Agreement will be guaranteed under a funding guarantee (the "*Funding Guarantee*") provided by the Seller Guarantor. The Funding Guarantee guarantees only the payments required to be made by the Seller under the Funding Agreement and does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement" and "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

The Indenture precludes the Issuer from issuing any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incurring obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other of its assets. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate or any other of its assets, other than the lien and charge created by the Indenture to secure the Bonds, and the lien and charge securing such refunding obligations and the Commodity Swap.

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate (defined herein) pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues (defined herein) and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State, the Issuer, the Municipality or

any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture). See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."

This Official Statement and the Appendices hereto include and incorporate by reference financial and other information about the Municipality, the Seller, the Seller Guarantor, the Swap Counterparty and FSA that may be relevant to a potential purchaser of the Bonds in considering the Municipality's ability to make the payments required to be made by it under the Supply Agreement, the Seller's ability to meet its gas delivery and payment obligations under the Prepaid Gas Agreement, the Seller Guarantor's ability to meet its obligations under the Seller Guarantee and the Funding Guarantee, FSA's ability to make payments under the Customer Insurance Policy and the Swap Counterparty's ability to make payments under the Commodity Swap.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement contains brief descriptions of, among other matters, the Issuer, the Municipality, the Seller, the Seller Guarantor, the Customer Insurance Policy, FSA, the Funding Agreement, the Bonds, the Indenture, the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Seller Swap Agreement, the Swap Counterparty, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries contained herein and in the Appendices hereto of various statutes, of the Indenture, and other documents are intended as summaries only and are qualified in their entirety by reference to such provisions, statutes, and documents; additionally, references herein to the Bonds are qualified in their entirety to the form thereof included in the Indenture. Copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available upon request, and upon payment to the Issuer of a charge for copying, mailing and handling, from Roseville Electric Utility, 2090 Hilltop Circle, Roseville, California 95747, Attention: Mr. Tom Green, (916) 774-5600. During the period of the offering of the Bonds, copies of the Indenture, the Prepaid Gas Agreement and the Supply Agreement are available, upon request and upon payment of a charge for copying, mailing and handling to Mr. Mark Widener, Merrill Lynch & Co., Global Markets and Investment Banking, 3455 Peachtree Road, The Pinnacle, Suite 200, Atlanta, Georgia 30326, (404) 264-3860.

Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer, the Municipality, the Seller, the Seller Guarantor, the Swap Counterparty and FSA. No dealer, broker, salesperson or other person has been authorized by the Issuer, the Municipality or the Underwriter to give any information or to make any representations other than those contained herein in connection with the offer and sale of the Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer, the Municipality or the Underwriter.

BONDOWNERS' RISKS

Investment in the Bonds is subject to certain risks. Particular attention should be given to the risk factors described under this caption. Any one of these factors, among others, could affect the payment of principal and interest due on the Bonds and the market price of the Bonds. The extent of any such effect cannot be determined at this time. For additional information and investment considerations, see "APPENDIX A—INFORMATION RELATING TO THE CITY OF ROSEVILLE AND THE ELECTRIC SYSTEM."

Limited Obligations of the Issuer

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). The transaction represented by the Prepaid Gas Agreement, the Supply Agreement, and the Commodity Swap represents the only significant business of the Issuer, and the Issuer has no substantial assets or revenues other than those that are pledged to the payment of the Bonds. Accordingly, no financial or operating information with respect to the Issuer is included in this Official Statement. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Limited Obligations; Limitations on Liability" and "THE ISSUER."

Early Redemption of Bonds

Upon the occurrence of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to deposit the Termination Amount with the Trustee, for the account of the Issuer, which will be used, together with other funds, to redeem outstanding Bonds prior to their scheduled maturity as described under the caption "TERMS OF THE BONDS—Mandatory Redemption."

The Bonds are also subject to mandatory redemption prior to maturity if the Trustee receives notice to the effect that redemption of all or a portion of the Bonds is necessary to preserve the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. The Issuer, the Seller and the Municipality have made certain covenants and by contract terms are bound to take certain actions to minimize the likelihood of such a mandatory redemption. See "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement" and "—The Supply Agreement."

Financial Position of Municipality

The Municipality's obligations under the Supply Agreement are limited obligations payable solely as operating expenses of the Municipality's electric utility system. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Limited Obligations; Limitations on Liability." While there can be no assurance that the ratings on the City's outstanding certificates of participation secured by net revenues of the Municipality's electric utility system will not be reduced or withdrawn, the electric utility system currently has outstanding ratings of A1/A+/A+ by Moody's Investors Service Inc. ("*Moody's*"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("*S&P*"), and Fitch Ratings ("*Fitch*"), respectively. See "APPENDIX A—ELECTRIC SYSTEM FINANCIAL INFORMATION—Indebtedness Payable from Net Revenues of the Electric System."

Although certain payment obligations of the Municipality under the Supply Agreement are insured by FSA pursuant to the Customer Insurance Policy, no assurance can be given that in the event the Municipality fails to make any such payment, the Contract Price will be such that the Customer Insurance Policy limit will not be exceeded. Such circumstances could result in an early termination of the Prepaid Gas Agreement and, in turn, the early redemption of the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.—Customer Insurance Policy Limit." See also "TERMS OF THE BONDS—Mandatory Redemption" and "THE GAS SUPPLY ACQUISITION—The Prepaid Gas Agreement." Any delay in payment under the Customer Insurance Policy could cause a delay or default in payments by the Issuer of principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information with respect to the Municipality and with

respect to FSA contained in this Official Statement, including the Appendices, in assessing the capacity of the Municipality to make the payments it is required to make under the Supply Agreement and FSA's capacity to make the payments required under the Customer Insurance Policy.

Decline in Municipality Natural Gas Requirements

The gas that the Municipality will be obligated to purchase in any month ranges from 2,500 to 12,000 MMBtu/day, or approximately 53 percent of the Municipality's projected annual natural gas requirement. Although the Municipality is required to purchase and pay for all gas delivered or deemed delivered to it pursuant to the Supply Agreement, it is possible that the Municipality's gas purchase requirements under the Supply Agreement in any month will exceed its natural gas requirements for that month. The City may fail to complete or operate the electric generating facility that is intended to use all of the gas, *i.e.*, the natural gas-fired, combined-cycle electrical generating facility being constructed at Roseville Energy Park (the "*Project*"). Material delays in the Project schedule, a failure to complete the Project, or a failure of the Project to live up to performance expectations do not relieve the Municipality from its obligation to receive gas and to make payments under the Supply Agreement. If the Municipality cannot use gas delivered under the Supply Agreement on any day, the Municipality will resell the gas, either directly or in certain circumstances through remarketing by the Seller, and will bear all risk that the price received for its sale of surplus gas delivered under the Supply Agreement will be below the Contract Price.

Financial Position of Seller and Seller Guarantor

The Seller or Seller Guarantor will be obligated to make certain payments to the Trustee, for the account of the Issuer, upon a failure of the Seller to deliver or the Issuer to take gas under the Prepaid Gas Agreement, whether or not such failure is caused by Force Majeure (as defined in the Prepaid Gas Agreement). In addition, upon termination of the Supply Agreement due to a default by the Municipality, the Seller is obligated under the Prepaid Gas Agreement to remarket the Gas Supply and remit all remarketing proceeds to the Trustee. The ability of the Issuer to pay principal of and interest on the Bonds when due will depend upon the timely payment by the Seller or the Seller Guarantor of such Gas Payments (as defined in the Prepaid Gas Agreement) including, in the event of the termination of the Supply Agreement, remarketing proceeds, to the Trustee.

In the event of an early termination of the Prepaid Gas Agreement, the Seller will be obligated to make a termination payment, and all of the outstanding Bonds will be subject to mandatory redemption prior to maturity. In addition, in the event a Covered Termination Deficiency exists, the Seller or Seller Guarantor is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay the Redemption Price of the Bonds (and accrued interest to the Early Redemption Date (defined herein), if any) will depend upon the payment by the Seller or Seller Guarantor of the Termination Amount and the Mandatory Termination Advance, if any, to the Trustee.

In the event there are insufficient funds in the Debt Service Fund and such failure is due to a Covered Swap Deficiency, the Seller, or the Seller Guarantor, is obligated under the Funding Agreement to fund such deficiency. The ability of the Issuer to pay principal and interest when due will depend upon the timely payment by the Seller, or the Seller Guarantor, of the Mandatory Swap Advance to the Trustee.

No assurance can be given that the future financial position of the Seller or the Seller Guarantor will enable either of each to make such payments in a timely manner. Any delay in payment by the Seller or the Seller Guarantor could cause a delay or default in payments of the principal and interest due on the Bonds. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE SELLER, THE SELLER GUARANTOR, THE SELLER

GUARANTEE AND THE FUNDING GUARANTEE" in this Official Statement in assessing the capacity of the Seller and the Seller Guarantor to make the payments required to be made under the Prepaid Gas Agreement, the Funding Agreement, the Seller Guarantee and the Funding Guarantee.

Financial Position of Swap Counterparty

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely receipt of payments made under the Commodity Swap by the Swap Counterparty. The Indenture requires that the Swap Counterparty be rated at least A1/A+/A+ by Moody's, S&P and Fitch respectively. In the event that the Swap Counterparty is assigned one rating that is below Aa3/AA-/AA- by Moody's, S&P or Fitch, respectively, the Swap Counterparty is required to post collateral as described herein. No assurance can be given that the future financial position of the Swap Counterparty will enable it to post sufficient collateral or make regular swap payments in a timely manner. A default by the Swap Counterparty will result in (a) an assignment of the Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days or, (b) if such assignment does not occur within 30 days, a termination of the Commodity Swap and an automatic termination of the Prepaid Gas Agreement. If the Swap Counterparty fails to make a swap payment and has failed to post collateral as required by the Commodity Swap, there may be a shortfall in the Debt Service Fund or the Termination Fund that is not required to be covered by the Seller under the Funding Agreement. In such event, there could be a delay or default in payment by the Issuer of principal and interest due on the Bonds.

Should the Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Supplier are obligated to use their best efforts to assign the Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made to a qualified replacement counterparty, the Commodity Swap will terminate, and an automatic termination of the Prepaid Gas Agreement will occur. Potential purchasers of the Bonds should study the information set forth and incorporated by reference under the heading "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge" in this Official Statement in assessing the capacity of the Swap Counterparty to make the payments required to be made or to post collateral as required under the Commodity Swap.

Performance of Qualified Provider

The ability of the Issuer to make full payment of the principal and interest due on the Bonds may depend upon the timely performance by the Qualified Provider under the Forward Purchase Agreement for the Debt Service Fund. The Indenture requires that if the Qualified Provider is no longer rated at least Aa3/AA-/AA- by Moody's, S&P and Fitch, respectively, then the Forward Purchase Agreement is to require the Qualified Provider to post collateral or make such other security arrangements as the Issuer shall determine are appropriate for its interests. The Wachovia Forward Purchase Agreement provides that if Wachovia is no longer rated at least Aa3/AA-/AA- by Moody's, S&P and Fitch, respectively, then Wachovia is to post collateral, obtain a guarantee or assign the agreement to another Qualified Provider. The Indenture further requires that the Issuer (a) replace the Forward Purchase Agreement in the event that the rating of the Qualified Provider does not meet the minimum requirement and adequate security has not been provided and (b) adjust the Contract Price in the Supply Agreement in the event a substitute Forward Purchase Agreement generates lower investment income. Any delay by the Issuer in fulfilling its obligation to adjust the Contract Price, if necessary, could cause a delay or default in payments of principal and interest due on the Bonds.

Structured Financing

The Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement, the Commodity Swap and the Forward Purchase Agreement have been structured so that the Revenues

available to the Issuer, together with the amounts on deposit in certain of the Funds held by the Trustee under the Indenture and other amounts available to the Issuer, are expected to be sufficient at all times to provide for the timely payment of the scheduled debt service requirements on the Bonds, the Issuer's payment obligations to the Swap Counterparty under the Commodity Swap and the Issuer's obligations under the Prepaid Gas Agreement. The Issuer's ability to meet its obligations on the Bonds and those agreements will depend primarily upon the performance by the Seller of its gas delivery and other obligations under the Prepaid Gas Agreement (or the Seller Guarantor under the Seller Guarantee), timely payment by the Municipality under the Supply Agreement (or FSA under the Customer Insurance Policy), timely payment by the Swap Counterparty under the Commodity Swap, timely performance by the Qualified Provider under the Forward Purchase Agreement, and the performance by the Seller of its obligations under the Funding Agreement (or the Seller Guarantor under the Funding Guarantee).

The principal sources of the Revenues pledged to the payment of the Bonds are the amounts to be received by the Issuer from the sale of the gas to the Municipality under the Supply Agreement, payments received by the Issuer under the Commodity Swap, and the investment earnings received under the Forward Purchase Agreement. Whether those Revenues will be sufficient to enable the Issuer to meet all of its payment obligations on the Bonds and under the Prepaid Gas Agreement and Commodity Swap over the entire term of such agreements will depend upon various factors, including but not limited to:

- The prospects and financial and operational performance of the Seller, or the Seller Guarantor, and the continuing ability of each to timely meet its obligations under the Prepaid Gas Agreement, as well as its obligations under the Funding Agreement, for the term of the Bonds;

- Performance of the Municipality under the Supply Agreement;

- The prospects and financial and operational performance of the Swap Counterparty, or any replacement swap counterparty, and its continuing ability to timely meet its obligations under the Commodity Swap; and

- The ability of the Qualified Provider to meet its obligations under the Forward Purchase Agreement then in effect.

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SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds are set forth in the following table.

SOURCES:	
Par Amount of the Bonds	$209,350,000.00
Original Issue Premium	15,454,116.15
TOTAL	$224,804,116.15
USES:	
Prepayment of Prepaid Gas Agreement	$212,661,363.06
Capitalized Interest	10,391,964.17
Costs of Issuance[1]	1,750,788.92
TOTAL	$224,804,116.15

[1] Includes underwriter's discount, rating agency and legal fees, Customer Insurance Policy premium and other expenses.

TERMS OF THE BONDS

The Bonds are to be issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, and under and subject to the terms and conditions of the Indenture. Appendix C contains a summary of certain provisions of the Indenture. Prospective purchasers of the Bonds should read Appendix C for a more complete understanding of the terms of the Bonds.

General

The Bonds are issuable in fully registered form only, without coupons, in authorized denominations of $5,000 and any integral multiple thereof. The Bonds will be dated as of the date of issuance and will bear interest from that date to maturity at the rates per annum shown on the inside cover page of this Official Statement, payable on August 15 and February 15 of each year, commencing August 15, 2007 (each, an "*Interest Payment Date*"). The Bonds are scheduled to mature on the dates and in the amounts set forth on the inside cover page of this Official Statement.

Mandatory Redemption

Redemption Upon Early Termination. The Bonds are subject to mandatory redemption prior to maturity in whole, and not in part, on the Early Redemption Date (defined as the date which is the last day of the month which follows the month in which the Early Termination Date occurs) at a Redemption Price equal to the Amortized Value (defined below) thereof as of the Early Redemption Date, plus unpaid accrued interest to the Early Redemption Date.

"*Amortized Value*" means, with respect to any Bond to be redeemed, the principal amount of such Bond multiplied by the price of such Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of delivery of

the Bonds), with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Bond and a yield equal to such Bond's original reoffering yield, which, in the case of certain dates, produces the amounts for all of the Bonds set forth in Appendix G hereto. See "APPENDIX G—SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS."

Redemption for Remediation. The Bonds are subject to mandatory redemption prior to maturity in whole or in part, on any Interest Payment Date, at a Redemption Price equal to the Amortized Value thereof, plus unpaid accrued interest to the redemption date, if required under certain circumstances to maintain the tax-exempt status of the Bonds. In general, those circumstances relate to the failure to apply the Gas Supply for a Qualifying Use (as such term is defined in the Prepaid Gas Agreement).

Optional Redemption

The Bonds are subject to redemption at the option of the Issuer in whole on any date or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) on any Interest Payment Date, at a Redemption Price equal to the greater of (a) the Amortized Value thereof, plus accrued and unpaid interest to the date of redemption; or (b) the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (described below) for such Bonds minus 0.25 percent.

The "*Applicable Tax-Exempt Municipal Bond Rate*" is the "Comparable AAA General Obligations" yield curve rate for the stated maturity date as published by Municipal Market Data five Business Days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com. In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.theconsensus.com. In the further event that Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by a major market maker in municipal securities, as the quotation agent, based upon the rate per annum equal to the annual yield to maturity, calculated using semi-annual compounding, of those tax-exempt general obligation bonds rated in the highest Rating Category by Moody's and S&P with a maturity date equal to the stated maturity date of such Bonds.

Notice of Redemption

When the Trustee receives notice from the Issuer of the Issuer's decision to optionally redeem Bonds, or when redemption of Bonds by the Trustee is required due to early termination of the Prepaid Gas Agreement or for remediation, each as described above, the Trustee is to give notice, in the name of the Issuer, of the redemption of such Bonds by first-class mail, postage prepaid, not less than 30 days (15 days in the case of any mandatory redemption under the Indenture) and not more than 45 days (30 days in the case of any mandatory redemption under the Indenture) prior to the redemption date to the Owner of each Bond being redeemed, at its address as it appears on the Bond Register or at such address as such Owner may have filed with the Trustee for that purpose, as of the Regular Record Date. The notice will

identify the Bonds to be redeemed and state (i) the redemption date, (ii) the Redemption Price or the manner in which it will be calculated, (iii) that the Bonds called for redemption must be surrendered to collect the Redemption Price, (iv) the address at which the Bonds must be surrendered, and (v) that interest on the Bonds called for redemption ceases to accrue on the redemption date. The Trustee is not to give any notice of redemption with respect to a redemption of Bonds at the option of the Issuer, unless upon the giving of such notice, the Trustee holds funds sufficient to pay the Redemption Price of the Bonds to be optionally redeemed.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption. See "Book-Entry Only System" below.

Bonds Redeemed in Part

Upon surrender of a Bond redeemed in part, the Issuer will execute and the Trustee will authenticate and deliver to the Owner thereof a new Bond or Bonds in Authorized Denominations equal in principal amount to the unredeemed portion of the Bond surrendered. Notwithstanding anything in the Indenture to the contrary, so long as the Bonds are held in the Book-Entry System, the Bonds will not be delivered as set forth above; rather, transfers of Beneficial Ownership of such Bonds to the person indicated will be effected on the registration books of the Securities Depository pursuant to its rules and procedures. See "Book-Entry Only System" below.

Selection of Bonds to be Redeemed

If less than all of the Bonds of like maturity are called for redemption, the particular Bonds or portions of Bonds to be redeemed are to be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate, from Bonds not previously called for redemption; provided, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination to be redeemed will be in the principal amount of such minimum Authorized Denomination or a multiple thereof. In selecting Bonds for redemption, the Trustee will treat each Bond of a denomination of more than the minimum Authorized Denomination as representing that number of Bonds of the minimum Authorized Denomination which is obtained by dividing by such minimum Authorized Denomination the principal amount of such Bond.

Registration and Exchange of Bonds; Persons Treated as Owners.

So long as the Bonds are maintained in book-entry form, the beneficial owners thereof will have no right to receive physical possession of the Bonds, and transfers of ownership interests in the Bonds will be made through book entries by The Depository Trust Company and its Participants, as described below under the subcaption "Book-Entry Only System."

The Trustee will maintain registration books for the registration and the registration of transfer of the Bonds. The transfer of any Bond may be registered only upon the books kept for the registration and registration of transfer of Bonds upon surrender thereof to the Trustee together with an assignment duly executed by the registered owner in person or by his duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer the Issuer will execute and the Trustee will authenticate and deliver in exchange for such Bond a new registered Bond or Bonds, registered in the name of the transferee, of any denomination or denominations authorized by this agreement.

The Trustee will not be required to make any such registration or registration of transfer of a Bond during the 15 days immediately preceding an interest payment date. Prior to due presentment for registration of transfer of any Bond, the Trustee will treat the registered owner as the person exclusively entitled to payment of principal and interest and the exercise of all other rights and powers of the owner.

Upon surrender thereof at the principal corporate trust office of the Trustee, together with an assignment duly executed by the registered owner or his duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, Bonds may, at the option of the owner thereof, be exchanged for Bonds of the same maturity, of authorized denominations and bearing interest at the same rate. Every such exchange will be at the expense of the Issuer, except that the Trustee will, if requested by the Issuer, make a charge to any owner of a Bond requesting such registration in the amount of any tax or other governmental charge required to be paid with respect thereto.

Debt Service Requirements

Set forth in the following table are the debt service requirements (excluding capitalized interest funded with bond proceeds) on the Bonds in each year.

Year Ending February 15	Principal Amount	Interest[1]	Total
2009	$ 6,645,000.00	10,133,600.42	16,778,600.42
2010	6,650,000.00	10,068,750.00	16,718,750.00
2011	6,915,000.00	9,802,750.00	16,717,750.00
2012	7,265,000.00	9,457,000.00	16,722,000.00
2013	7,675,000.00	9,093,750.00	16,768,750.00
2014	8,030,000.00	8,710,000.00	16,740,000.00
2015	8,435,000.00	8,308,500.00	16,743,500.00
2016	8,860,000.00	7,886,750.00	16,746,750.00
2017	9,345,000.00	7,443,750.00	16,788,750.00
2018	9,780,000.00	6,976,500.00	16,756,500.00
2019	10,275,000.00	6,487,500.00	16,762,500.00
2020	10,800,000.00	5,973,750.00	16,773,750.00
2021	11,385,000.00	5,433,750.00	16,818,750.00
2022	11,920,000.00	4,864,500.00	16,784,500.00
2023	12,520,000.00	4,268,500.00	16,788,500.00
2024	13,155,000.00	3,642,500.00	16,797,500.00
2025	13,865,000.00	2,984,750.00	16,849,750.00
2026	14,530,000.00	2,291,500.00	16,821,500.00
2027	15,265,000.00	1,565,000.00	16,830,000.00
2028	16,035,000.00	801,750.00	16,836,750.00

[1] Net of capitalized interest on the Bonds (including investment earnings). See "SOURCES AND USES OF FUNDS."

Book-Entry Only System

Information concerning The Depository Trust Company ("*DTC*") and the book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer, the Underwriter, or the Trustee.

The Bonds will be available only in book-entry form in Authorized Denominations. The Depository Trust Company, New York, New York, will act as the initial securities depository for the Bonds. The Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Bank 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 Exchange Act. 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 instruments from over 100 countries that DTC's Participants (the "*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (the "*NSCC*," "*FICC*," and "*EMCC*," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc. (the "*NYSE*"), 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 (the "*Indirect Participants*" and, together with the Direct Participants, the "*DTC Participants*"). DTC has S&P's highest rating: AAA. The rules applicable to DTC and DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration

in the name of Cede & Co. or such other 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 account 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.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by DTC 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 DTC Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

NEITHER THE ISSUER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE

PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANTS OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OR ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO OWNERS OF BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BONDS.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

This Section describes the security and sources of payment for the Bonds. The information contained below includes descriptions of certain provisions of the Indenture. Reference is made to Appendix C for a more complete summary of certain provisions of the Indenture. Capitalized terms used in this Section and not otherwise defined in this Official Statement are used with the meanings assigned thereto by the Indenture.

Limited Obligations; Limitations on Liability

The Bonds are special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate pledged under the Indenture. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Issuer or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture (which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture). Neither the faith and credit nor the taxing power of the State, the Issuer, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Issuer, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State or any public agency, including the Municipality (other than the special obligation of the Issuer as provided in the Indenture).

All payment obligations of the Municipality under the Supply Agreement, including the Municipality's obligation to pay the Contract Price to the Issuer for gas delivered or deemed delivered under the Supply Agreement, are limited obligations payable solely from the Municipality's electric utility system revenues. The Municipality has no obligation to make any payment to the Issuer for gas not delivered or deemed delivered to the Municipality in accordance with the Supply Agreement.

The City's obligation to pay the Contract Price for gas delivered or deemed delivered pursuant to the Supply Agreement will be classified as an operation expense of its electric utility system. Operation expenses, which also include payments for electric generation and transmission service to joint action agencies in which the City's electric utility system participates, are payable prior to outstanding obligations of the City in the principal amount of approximately $270 million payable from net revenues of the electric utility system.

Certain financial and operating data with respect to the Municipality's electric utility system, which may be relevant to an evaluation of the Municipality's ability to meet its payment obligations under

the Supply Agreement, is included in Appendix A. The audited financial statements of the City of Roseville, California for the fiscal year ended June 30, 2006 is included as Appendix B. See "FINANCIAL STATEMENTS."

The Trust Estate

As security for payment of the principal of and premium, if any, and interest on the Bonds, the Issuer has pledged and assigned to, and granted a security interest to the Trustee in, the following described property (the "*Trust Estate*"):

(a) the proceeds of the sale of the Bonds (subject to the application of funds for the purposes and on the terms and conditions set forth in the Indenture);

(b) all right, title and interest of the Issuer in, to and under the Prepaid Gas Agreement, the Seller Guarantee, the Supply Agreement, the Funding Agreement and the Funding Guarantee;

(c) the Revenues (defined below);

(d) any Termination Amount,

(e) any amounts paid as a Mandatory Termination Advance; and

(f) all Funds established by the Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof; subject in all cases to the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

"Revenues," as defined in the Indenture, means (i) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Issuer from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Issuer under the Supply Agreement, the Prepaid Gas Agreement, the Seller Guarantee, the Customer Insurance Policy or otherwise payable to it for the sale and/or transportation of gas or otherwise with respect to the Gas Supply (but excluding therefrom: (A) any Termination Amount; (B) any Unearned Amount (defined herein); (C) amounts paid by or on behalf of the Issuer for the mandatory redemption of Bonds for remediation; (D) amounts paid under the Supply Agreement after the termination thereof; and (E) any upfront payment made by a Qualified Provider); (ii) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (iii) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to the Indenture and paid or required to be paid into the Revenue Fund; (iv) any Commodity Swap Receipts received by the Issuer; and (v) any amounts paid under the Funding Agreement or the Funding Guarantee (but excluding therefrom any amounts paid as a Mandatory Termination Advance (as defined in the Funding Agreement)).

Revenues and Flow of Funds

Pursuant to the Indenture, the Issuer has established the following Funds to be held by the Trustee (with the exception only of the Operating Fund, which shall be held by the Issuer):

(i) the Project Fund;

(ii) the Cost of Issuance Fund;

(iii) the Revenue Fund;

(iv) the Debt Service Fund;

(v) the Swap Payment Fund;

(vi) the Rebate Fund;

(vii) the Redemption Fund;

(viii) the Termination Fund; and

(ix) the Operating Fund.

Within the Funds held by the Trustee, the Trustee may create one or more accounts or subaccounts in any Fund as may facilitate the administration of the Indenture.

Project Fund

There will be paid into the Project Fund, from the proceeds of the Bonds, the amount specified in the Indenture (and set forth hereinabove under "SOURCES AND USES OF FUNDS"). Amounts in the Project Fund will be used to make the Prepayment to the Seller in accordance with the Prepaid Gas Agreement.

Cost of Issuance Fund

Money in the Cost of Issuance Fund will be used by the Trustee to pay Costs of Issuance as provided in the Indenture. Upon the receipt by the Trustee of a certificate of Written Request of the Issuer requesting the Trustee to close the Cost of Issuance Fund, the Trustee will transfer any moneys remaining in the Cost of Issuance Fund to the Debt Service Fund.

Revenue Fund

All Revenues are to be deposited promptly by the Trustee upon receipt thereof into the Revenue Fund. In each month during which there is a deposit of Revenues into the Revenue Fund (but in no case later than the respective dates set forth below), the Trustee is to credit to the following Funds in the following order of priority (except as provided in (ii) below, with the full amount to be transferred to any Fund in a month to be transferred to such Fund before any transfer is made to a fund with a lower priority), the amounts set forth below (such transfers to be made in such a manner so as to assure good funds in such Funds on the respective dates set forth below):

(i) To the Debt Service Fund: not later than the 25th of such month, or if such day is not a Business Day, then the next succeeding Business Day, the Scheduled Debt Service Deposit for such month, as set forth in the relevant schedule attached to the Indenture; provided, that if any moneys from the initial draw on the Customer Insurance Policy have been deposited in the Revenue Fund in such month, the Trustee shall transfer to the Debt Service Fund the Scheduled Debt Service Deposit for such month and the next succeeding month;

(ii) If the Issuer has issued obligations to refund Bonds that are payable from the Revenues on a parity with the Bonds, to the debt service fund or funds for such refunding

obligations the amounts required to be deposited in such funds pursuant to the proceedings and documents pursuant to which such refunding obligations were issued; provided, that if there are not sufficient moneys in the Revenue Fund to make the full transfers required by this clause (ii) and clause (i) above, such transfers shall be made *pro rata* based on the respective amounts due;

(iii) To the Swap Payment Fund: not later than the 25th of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount, if any, required so that the balance credited to the Swap Payment Fund equals the amount necessary for the payment of the Commodity Swap Payment, if any, coming due in such month;

(iv) To the Rebate Fund: not later than the last day of such month, the amount, if any, required so that the balance credited to the Rebate Fund equals the amount required to be on deposit in the Rebate Fund;

(v) To the Redemption Fund: not later than the 25th of such month, or if such day is not a Business Day, the next succeeding Business Day, the amount specified in a written direction of the Issuer for the optional redemption of Bonds; and

(vi) To the Operating Fund: not later than the last day of such month, the remaining balance in the Revenue Fund after making the foregoing transfers to the Debt Service Fund, the Swap Payment Fund, the Rebate Fund and the Redemption Fund.

The Scheduled Debt Service Deposits shall be adjusted as directed by the Issuer to reflect the optional redemption of Bonds and the redemption of Bonds for remediation purposes.

Debt Service Fund

The amounts credited to the Debt Service Fund from the Revenue Fund will be applied on each Bond Payment Date to the payment of Debt Service payable on such Bond Payment Date. Any amount remaining in the Debt Service Fund after each date for payment of maturing principal, other than Bond proceeds or the interest thereon to be to be retained therein for purposes of making future payments, are to be transferred to the Operating Fund.

Swap Payment Fund

Amounts credited to the Swap Payment Fund will be applied from time to time by the Trustee to the payment of the Commodity Swap Payments. Amounts credited to the Swap Payment Fund that the Issuer at any time determines to be in excess of the requirements of such Fund are to be applied to make up any deficiencies in the Debt Service Fund. Any balance of such excess not required to be so applied is to be transferred to the Revenue Fund.

Rebate Fund

The Trustee is to apply amounts in the Rebate Fund to the payment when due of the Rebate Requirements. Within the Rebate Fund, the Trustee will maintain such accounts as directed by the Issuer as necessary in order for the Issuer and the City to comply with the terms and requirements of the Tax Agreement. Subject to the transfer provisions described herein, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America, and none of the Issuer, the City, the Trustee or the Owners has any rights in or claim to such moneys.

Redemption Fund

The Trustee is to deposit all amounts which are not Revenues received from the Issuer for deposit into the Redemption Fund, including amounts deposited in connection with a mandatory redemption of Bonds for remediation and optional transfers from the Operating Fund or any other source of funds. Amounts on deposit in the Redemption Fund are to be applied by the Trustee to the mandatory redemption of outstanding Bonds for remediation and/or for the optional redemption of Bonds as directed in a written direction of the Issuer.

Termination Fund

In the event an Early Termination Date is established for the Prepaid Gas Agreement, the Issuer will direct the Seller to pay the Termination Amount directly to the Trustee for the account of the Issuer. The Trustee will deposit the Termination Amount into the Termination Fund. On the 25th day of the month in which the Bonds are subject to mandatory redemption, after making any payments to be made from the Debt Service Fund and/or the Swap Payment Fund on such date, the Trustee is to transfer all moneys in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund to the Termination Fund. The amounts deposited into the Termination Fund are to be applied by the Trustee to the mandatory redemption of all outstanding Bonds on the Early Redemption Date pursuant to the Indenture.

To the extent that the balance in the Termination Fund is not sufficient to pay: (i) the Redemption Price plus accrued interest on the Bonds to be redeemed on the Early Redemption Date, and (ii) any amount due to the Qualified Provider under the Forward Purchase Agreement as a result of the termination of the Prepaid Gas Agreement, and such deficiency is a Covered Termination Deficiency, the Trustee is to provide notice to the Seller of a Covered Termination Deficiency under the Funding Agreement and draw the full amount of such deficiency as a Mandatory Termination Advance thereunder. The full amount of the Mandatory Termination Advance is to be deposited in the Termination Fund.

Operating Fund

The Issuer is to apply amounts credited to the Operating Fund to any one or more of the following (as the Issuer determines and without any order of priority):

(i) payment of administrative or other expenses of the Issuer;

(ii) rebates to the City;

(iii) the purchase or redemption of Bonds and expenses in connection therewith; and

(iv) any other lawful purpose of the Issuer.

Any purchase of Bonds (or portions thereof) by or at the direction of the Issuer pursuant to the Indenture may be made with or without tenders of Bonds and at either public or private sale, in such manner as the Issuer may determine.

Payments Under the Customer Insurance Policy

If the Trustee has not received payment from the Municipality of all or any portion of the Contract Price payments due by the second Business Day following the 25th day of any month (beginning on February 25, 2008), or if such day is not a Business Day, the next succeeding Business Day, the Trustee will make a claim under the Customer Insurance Policy for the unpaid portion of such Contract

Price payments on such date. The Trustee will deposit any amount received from FSA in the Revenue Fund and apply such amounts as described under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Revenues and Flow of Funds." The Customer Insurance Policy insures only the payments required to be made by the Municipality for the Contract Price of the gas to be delivered to the Municipality under the Supply Agreement, and does not insure any other payments, including but not limited to costs, expenses (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, which may be payable by the Municipality to the Issuer under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Payments Under the Seller Guarantee

If at any time a payment is due to the Issuer by the Seller under the Prepaid Gas Agreement and the Trustee has not received the full amount of such payment, the Trustee will immediately make a demand for payment under the Seller Guarantee for the amount unpaid.

Pursuant to the Prepaid Gas Agreement, the Issuer or the Seller is to provide notice to the Trustee if either party establishes an Early Termination Date (defined herein) for the Prepaid Gas Agreement. In connection with the establishment of an Early Termination Date, the Issuer and the Seller are required by the Prepaid Gas Agreement to prepare and deliver to the Trustee invoices specifying amounts payable in connection with the termination of the Prepaid Gas Agreement. If any of such invoices specifies that amounts are payable by the Seller and the Trustee has not received the full amount of such payment by the end of the second Business Day following the Early Termination Date, the Trustee will make a demand for payment from the Seller Guarantor under the Seller Guarantee for the amount unpaid. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE—The Seller Guarantee."

Payments Under the Funding Agreement

The Funding Agreement provides that in the event of a Covered Termination Deficiency or a Covered Swap Deficiency, the Seller will make a Mandatory Termination Advance or a Mandatory Swap Advance, as applicable, to the Trustee on the day which is one day after the Seller's receipt of notice of the Covered Termination Deficiency or the Covered Swap Deficiency (or if such day is not a Business Day, the next succeeding Business Day). In the event of a Covered General Deficiency under the Funding Agreement, the Seller may at its sole option advance funds to the Issuer in respect of such Covered General Deficiency. See "THE GAS SUPPLY ACQUISITION—The Funding Agreement."

Payments Under the Funding Guarantee

If the Trustee has not received payment from the Seller of an advance due in respect of a Covered Termination Deficiency or a Covered Swap Deficiency, as applicable, the Trustee will immediately demand payment from the Seller Guarantor under the Funding Guarantee for the payment of such amount. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE—The Funding Guarantee."

THE GAS SUPPLY ACQUISITION

General

The purchase of a portion of the Municipality's natural gas requirements from the Issuer for a twenty-year period will enable the Municipality to acquire a fixed supply of that portion of its natural gas requirements at a discount from the Index Price.

Deliveries of the natural gas to be purchased by the Municipality commence on January 1, 2008 and continue through December 31, 2027. The daily quantity of gas (the "*Daily Contract Quantity*") to be purchased by the Municipality during this period will vary from month to month, but not from year to year, and is set forth in Appendix D hereto. The Municipality has projected that the Daily Contract Quantity to be delivered in any month (the "*Monthly Contract Quantity*") will range from 25 percent to 65 percent of its monthly natural gas requirements. On an annual basis, the quantity of gas to be delivered under the Gas Supply Agreement represents 53 percent of the Municipality's projected natural gas requirements. In making this projection, the Municipality has assumed that its natural gas requirements will remain constant over the twenty-year period.

At this time, the City has no contractual commitment to purchase all or any portion of its remaining gas requirements from any particular supplier; however, the City intends to enter into one or more gas purchase agreements in order to secure the remaining portion of its natural gas requirements. The City has covenanted in the Supply Agreement to use all the gas purchased under the Supply Agreement to satisfy its natural gas requirements prior to the use of gas under any additional contract. The Supply Agreement does not prohibit or restrict the Municipality from entering into other gas supply agreements in the future, including agreements with the Seller, for all or any portion of its natural gas requirements.

The Prepaid Gas Agreement

Set forth below is a summary of certain provisions of the Prepaid Gas Agreement. This summary does not purport to be complete, and reference is made to the entire Prepaid Gas Agreement (including for the definitions of certain capitalized terms used herein), copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

Consideration for Delivery of Prepaid Gas; Security for Performance of Obligations

In consideration of Seller's agreement to deliver the Gas Supply under the Prepaid Gas Agreement, the Issuer (who is referred to in the Prepaid Gas Agreement as the "Purchaser") will pay to the Seller the Prepayment by wire transfer on the Closing Date.

The payment obligations of the Seller arising under or in connection with the Prepaid Gas Agreement are to be guaranteed by the Seller Guarantor pursuant to the Seller Guarantee. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

Non-performance by Seller

If the Seller fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Prepaid Gas Agreement (a "*Seller Delivery Default*"), the Seller is to pay the Issuer an amount calculated in accordance with the terms of the Prepaid Gas Agreement.

Issuer Failure to Receive Gas; Remarketing of Gas by the Seller

The Issuer's failure on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the applicable Delivery Point of the quantity of gas required to be received at such Delivery Point on such day from the Seller, is a "*Purchaser Receipt Failure*" under the Prepaid Gas Agreement. In such event, the Seller is to pay the Issuer an amount calculated in accordance with the terms of the Prepaid Gas Agreement.

Optional Remarketing

So long as the Supply Agreement is in effect and no Anticipatory Tax Event Period has occurred and is continuing and no Tax Event (as such terms are defined in the Prepaid Gas Agreement) has occurred, if requested by the Issuer in writing, the Seller is to remarket that portion of the Gas Supply specified by the Issuer from time to time in each notice ("*Optional Remarket Gas*") as follows:

(a) Monthly Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more months by the Monthly Notice Time, the Seller is to remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Index Price.

(b) Daily Remarketing. If the Seller receives the Issuer's request to remarket Optional Remarket Gas for a period of one or more days by the Daily Notice Time, the Seller is to remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Spot Price.

Mandatory Remarketing

Anticipatory Remarket Gas. While the Supply Agreement is in effect, if the amount of non-qualifying use is 50 percent or more of the limitation on non-qualifying use, the Municipality will be required to deliver to the Seller a notice specifying the amount of gas the Municipality expects to apply for a Qualifying Use. The Seller is obligated to remarket the gas that is not expected to be used by Municipality for a Qualifying Use at a price specified in the Prepaid Gas Agreement. If the Seller is unable to remarket such gas for a Qualifying Use, the Seller is to purchase such gas at the prices specified for Optional Remarket Gas.

Tax Event Remarket Gas. While the Supply Agreement is in effect, if the amount of non-qualifying use is 90 percent or more of the limitation on non-qualifying use, the Municipality will be required to deliver to the Seller a notice specifying the amount of gas the Municipality expects to apply for a Qualifying Use. The Seller is obligated to remarket the gas that is not expected to be used by the Municipality for a Qualifying Use at the highest possible price, but in any event no less than the Contract Price. If the Seller is unable to remarket such gas for a Qualified Use at a price at least equal to the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, the Seller is to purchase such gas at the prices specified for Optional Remarket Gas.

Termination Remarket Gas. Upon receipt of notice that the Supply Agreement is no longer in effect, the Seller is to use commercially reasonable efforts to remarket all of the gas at the highest possible price, but in any event no less than the Contract Price; except that (a) if the amount of non-qualifying use is 90 percent or more of the limitation on non-qualifying use, the Seller is obligated to remarket all of the gas for a Qualifying Use at the highest possible price, but in any event no less than the Contract Price; and (b) if the Seller cannot remarket the gas for a Qualifying Use at a price at least equal to the Contract Price, and the Issuer has received an opinion of Tax Counsel that such sales will not

adversely affect the Tax-Exempt Status of the Bonds, the Seller is to remarket the gas to itself or a third party at the Contract Price.

Remediation

To maintain the Tax-Exempt Status of the Bonds, and except as permitted by Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2) and as otherwise approved by an opinion of Tax Counsel as preserving the Tax-Exempt Status of the Bonds, the Issuer is obligated to apply, or caused to be applied, the Gas Supply for a Qualifying Use. To the extent certain amounts of gas are not applied for a Qualifying Use, the corresponding price paid for such gas ("*Proceeds Subject to Remediation*") may be applied to a Remediation Use. "*Remediation Use*" means, with respect to Proceeds Subject to Remediation, either: (a) the purchase of gas with such Proceeds Subject to Remediation and the sale of such gas for a Qualifying Use (as evidenced by a Qualifying Use Certificate); (b) the application of such moneys by the Municipality to the purchase of gas, which gas is applied by the Municipality for a Qualifying Use; or (c) the application of Proceeds Subject to Remediation to the purchase of electricity in compliance with Treasury Regulation Section 1.148-1(e)(2)(iii)(B)(2).

Under the Supply Agreement, the Municipality will establish and maintain a Remediation Fund so long as any Bonds are outstanding under the Indenture. The Municipality is to deposit in the Remediation Fund all amounts received with respect to gas remarketed for a Non-Qualifying Use. The Municipality is to use commercially reasonable efforts to cause all Proceeds Subject to Remediation in the Remediation Fund to be applied for a Remediation Use within twelve months of the date on which such funds were deposited in the Remediation Fund.

In the event that funds have been on deposit in the Remediation Fund for more than twelve months, or the amount of non-qualifying use is 50 percent or more of the limitation on non-qualifying use, the Municipality is to make all Proceeds Subject to Remediation available to the Seller to apply to a Remediation Use within the limitations of the Prepaid Gas Agreement.

In the event that any Proceeds Subject to Remediation remain on deposit in the Remediation Fund for twenty-two (22) months after the applicable Receipt Date, the Municipality is to transfer such Proceeds Subject to Remediation and any other required funds to the Trustee for deposit in the Redemption Fund to be applied to the redemption of Bonds as directed by the Issuer and approved by Tax Counsel as preserving the Tax-Exempt Status of the Bonds. See "TERMS OF THE BONDS—Mandatory Redemption" herein.

Force Majeure

Except with regard to a party's obligation to make payment(s) due under the Prepaid Gas Agreement, neither party will be liable to the other for failure to perform an obligation under the Prepaid Gas Agreement, to the extent such failure was caused by Force Majeure. During any Delivery Month in which all or a portion of the Monthly Contract Quantity is not delivered or received due to Force Majeure, the Seller is to pay the Issuer, in the manner provided for in the Prepaid Gas Agreement, an amount equal to the product of (i) the quantity of the Monthly Contract Quantity not taken because of the Force Majeure and (ii) the Index Price. Payment of such amount will satisfy Seller's obligation to deliver, and Issuer's obligation to receive, the gas that was not delivered or received due to Force Majeure.

Billing and Payment; Guarantee of Seller's Payments by the Seller Guarantor

On or before the 15th day of each month, from February 2008 to and including the month following the termination of the Prepaid Gas Agreement, the Seller is to prepare and deliver to the Issuer

and the Trustee an invoice with respect to amounts accruing during the preceding month. In preparing such invoice, all amounts, charges and adjustments, other than Gas Payments and the proceeds of remarketing, contained in the Seller's statement are to be netted such that a single payment will be made by the party owing the net amount.

Unless a different time of payment is specified for a particular payment, payments are to be made by the party owing the payment on or before the 25th day of the month in which such invoice is delivered ("*Payment Date*"); provided, that if the Payment Date is not a Business Day, payment is due on the next succeeding Business Day. All payments by the Seller are to be made to the Trustee for deposit in the Revenue Fund except as follows: Termination Payments are to be made to the Trustee for deposit in the Termination Fund; Unearned Amounts are to be made to the Issuer for deposit in the Operating Fund; the proceeds of remarketing and net amounts owed by the Seller from remediation sales of gas or electricity by the Seller while the Supply Agreement is in effect are to be paid to the Municipality.

Triggering Events; Termination of the Prepaid Gas Agreement

Automatic Triggering Events. Under the Prepaid Gas Agreement, an automatic Triggering Event is to be deemed to have occurred upon the occurrence of any of the following events: (a) the early termination of any commodity price swap to which the Seller is a party due to the Seller's default or a termination event under which the Seller is the affected party, or (b) the early termination of the Commodity Swap for any reason other than the Issuer's default.

Triggering Event at the Option of the Issuer. Under the Prepaid Gas Agreement, a Triggering Event is to be deemed to have occurred at the option of the Issuer upon the occurrence of any of the following events:

(a) The Seller, and the Seller Guarantor on the Seller's behalf, fail to pay either: (1) any Gas Payment as invoiced or (2) fail to pay any undisputed amount due under the Prepaid Gas Agreement other than a Gas Payment, on the second Business Day following the applicable Payment Date or, if such Payment Date is not a Business Day, on the next succeeding Business Day.

(b) A Bankruptcy Event occurs with respect to the Seller or the Seller Guarantor.

(c) Any representation or warranty given by the Seller proves to have been false or misleading when made and such misrepresentation or warranty has had or could reasonably be expected to have a material adverse effect on the Seller's ability to perform its obligations to deliver gas or make any payment required under the Prepaid Gas Agreement related to the delivery of gas or the making of payments under the Prepaid Gas Agreement.

(d) For reasons other than Force Majeure or a Purchaser Receipt Failure, the Seller delivers (a) no gas (other than replacement gas deemed delivered by the Seller pursuant to the applicable provisions of the Prepaid Gas Agreement) for a period of five (5) consecutive days for which gas is required to be delivered, or (b) less than fifty percent of the gas required to be delivered on any particular day (not including replacement gas deemed delivered by Seller pursuant to the applicable provisions of the Prepaid Gas Agreement) for ten (10) cumulative days during any contract year during the Term of the Prepaid Gas Agreement.

(e) The occurrence of an Excess Gas Event. An "*Excess Gas Event*" means that subsequent to the issue date of the Bonds and after a Tax Event has occurred, due to events that occurred (or did not occur) or other changes in expectations, the gas to be delivered under the Prepaid Gas Agreement is no longer required for Qualifying Uses as evidenced exclusively by the following: (i) the Issuer or (while the Supply Agreement is in effect) the Municipality is unable to apply the gas then remaining to be delivered under the Prepaid Gas Agreement for a Qualifying Use; and (ii) the Seller does not remarket gas under the Prepaid Gas Agreement for a Qualifying Use at prices at least equal to the applicable prices set forth in the Prepaid Gas Agreement.

Triggering Event at the Option of the Seller. Under the Prepaid Gas Agreement, a Triggering Event is to be deemed to have occurred at the option of the Seller upon the occurrence of any of the following events: (a) the termination of the Commodity Swap due to the Issuer's default, or (b) the termination of the Seller Swap Agreement for reasons other than Seller's default.

Right to Establish Early Termination Date. Upon an Automatic Triggering Event described hereinabove, the Issuer shall, and in the case of a Triggering Event that is deemed to have occurred at the option of the Issuer or the occurrence of any of the Section 17 Events affecting the Issuer, the Issuer may, but is not obligated to, establish a date that is the Early Termination Date and promptly provide notice to the Seller and the Trustee specifying the relevant Triggering Event and the Early Termination Date. Upon a Triggering Event that is deemed to have occurred at the option of the Seller, as described hereinabove, or the occurrence of any of the Section 17 Events affecting the Seller, the Seller may, but is not obligated to, establish a date that is the Early Termination Date and promptly provide notice to the Issuer and the Trustee specifying the relevant Triggering Event and the Early Termination Date. In any case, the termination date so established is to be referred to as the "*Early Termination Date*," and the Term of the Prepaid Gas Agreement shall cease on the Early Termination Date. An Early Termination Date is to be the last day of a calendar month.

Payments on Early Termination; Redemption of Bonds

Accrued Amounts. Within two Business Days following the Early Termination Date, each party to the Prepaid Gas Agreement will submit to the other and the Trustee an invoice specifying any and all amounts known to be owed to it (and, with respect to payments other than Gas Payments, not disputed pursuant to the Prepaid Gas Agreement) by the other party under the terms of the Prepaid Gas Agreement, whether or not such amounts are otherwise then due and payable, including without limitation (i) invoiced amounts, and (ii) uninvoiced amounts and/or amounts payable for physical deliveries or settlements that occurred prior to the Early Termination Date, and the applicable party is to pay the amount so specified in the manner set forth in the Prepaid Gas Agreement.

Termination Amount and Unearned Amount. In the event an Early Termination Date has been established due to (i) the termination of any commodity swap to which Seller is a party due to the Seller's default or a termination event under which the Seller is the affected party, or (ii) the exercise of the Issuer's option to terminate after the occurrence of a Triggering Event at the Option of the Issuer, or (iii) a notice of termination by the Seller due to any of the Section 17 Events, within two Business Days following the Early Termination Date, the Seller will deposit the Termination Amount with the Trustee for deposit in the Termination Fund and the present value of the discount the Issuer would have received but for the early termination of the Prepaid Gas Agreement (the "*Unearned Amount*") with the Issuer for deposit in the Operating Fund.

Remarketing Proceeds and Termination Amount. In the event an Early Termination Date has been established due to (i) the termination of the Commodity Swap for reasons other than the Issuer's

default, or (ii) the exercise of the Seller's option to terminate after the occurrence of a Triggering Event at the Option of the Seller, or (iii) a notice of termination by the Issuer due to any of the Section 17 Events, within two Business Days following the Early Termination Date, the Seller is to deliver to the Issuer, and the Issuer is to take delivery of, an amount of gas with a value equal to the Termination Amount at such Delivery Point or Delivery Points as shall be designated by the Seller. The Seller is then to immediately remarket such gas on behalf of the Issuer. The Seller is not to be obligated to acquire, deliver and remarket such gas if the Seller determines, in its sole judgment, that such acquisition, delivery and/or remarketing would adversely affect the market price for gas at any Delivery Point or Delivery Points for such gas. In all events, within two Business Days following the Early Termination Date, the Seller will deposit with the Trustee the amount, if any, received from the remarketing of gas pursuant to such provision of the Prepaid Gas Agreement plus the positive difference, if any, obtained by deducting such amount from the Termination Amount.

The Supply Agreement

Set forth below is a summary of certain provisions of the Supply Agreement. This summary does not purport to be complete, and reference is made to the entire Supply Agreement (including for the definitions of certain capitalized terms used herein), copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

The Supply Agreement shall be effective commencing on the date of its execution and continue in effect until December 31, 2027, unless terminated earlier due to certain defaults, as set forth therein, or the termination of the Prepaid Gas Agreement.

Delivery and Receipt Obligations; Payment by the Municipality

Beginning January 1, 2008, and on each day thereafter during the remaining Term of the Supply Agreement, the Issuer is to deliver, or cause to be delivered, and Municipality is to receive the Daily Contract Quantity pursuant to the terms of the Supply Agreement.

Consideration

The Municipality is to pay the Contract Price for all gas delivered or deemed delivered by the Seller. The Municipality is to pay the Contract Price payments irrespective of any dispute or claim of Force Majeure disputed by the Issuer.

Issuer Delivery Default

If the Issuer fails on any day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of gas required to be delivered to such Delivery Point on such day pursuant to the Prepaid Gas Agreement (an "*Issuer Delivery Default*"), the Municipality will have no obligation to pay for any of the Gas Supply that was not delivered as a result of such Issuer Delivery Default.

Municipality Receipt Failure

The Municipality's failure on any day, for any reason other than Force Majeure, to meet its obligation to take delivery at the Delivery Point of the quantity of gas required to be received at such Delivery Point is a "*Municipality Receipt Failure*" under the Supply Agreement. The Municipality will be liable for the Contract Price for all gas as to which there is a Municipality Receipt Failure. Pursuant to the Prepaid Gas Agreement, upon the failure of the Issuer to meet its obligation to receive any gas to be delivered thereunder for any reason other than Force Majeure, the Seller is obligated to make certain

payments to the Issuer. The Issuer will agree in the Supply Agreement to credit against the Contract Price payments due from the Municipality in any month the amount paid by the Seller in such month with respect to an Issuer Receipt Failure.

Billing

The payment of the monthly net amount payable by the Municipality for gas delivered or deemed delivered under the Supply Agreement is to be made by the Municipality on the 25th day of the next succeeding month; provided, that if such payment date is not a Business Day, payment is due on the next succeeding Business Day. Except as otherwise provided in the Supply Agreement with respect to payments due to the Seller from the Remediation Fund, all payments by the Municipality are to be made to the Revenue Fund.

Security for Performance of Obligations

The obligation of the Municipality to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed under the Customer Insurance Policy. The Customer Insurance Policy insures only the Contract Price payments required to be made by the Municipality and does not insure any other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. See "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC."

Source of Municipality's Payments

The Municipality will agree in the Supply Agreement to make the payments it is required to make thereunder from the revenues of its electric system, and only from such revenues, and as a charge against such revenues, as an operating expense of its electric system and as a cost of fuel for its electric generating units; provided, that the Municipality, in its discretion, may apply any legally available monies to the payment of amounts due under the Supply Agreement. The Municipality will covenant and agree in the Supply Agreement that it will establish, maintain, and collect rates and charges for its electric system so as to provide revenues sufficient, together with all available electric system revenues, to enable the Municipality to pay to the Issuer all amounts payable under the Supply Agreement and to pay all other amounts payable from the revenues of the Municipality's electric utility system, and to maintain any required reserves.

Termination of Supply Agreement

Notwithstanding anything in the Supply Agreement to the contrary, the Supply Agreement will automatically terminate, without the necessity of any action by, or notice to, either party upon the termination of the Prepaid Gas Agreement or upon the failure of the Municipality to make a Contract Price payment within two Business Days of the date such payment is due.

Covenants of the Parties Regarding Federal Tax Issues

Notwithstanding anything in the Supply Agreement to the contrary, the parties thereto agree to comply with any certifications made to, or procedures required by, Tax Counsel to protect the Tax-Exempt Status of the Bonds regarding the sale, delivery, purchase or receipt of gas pursuant to the terms of the Supply Agreement, the application of any Proceeds Subject to Remediation or any other proceeds in connection with the gas, and any other matters affecting the Tax-Exempt Status of the Bonds.

Special Obligations of Issuer

Notwithstanding anything to the contrary contained in the Supply Agreement: (i) the obligation of the Issuer to deliver gas under the Supply Agreement is limited to the delivery of gas which the Issuer receives under the Prepaid Gas Agreement; (ii) the obligation of the Issuer to pay any amount under the Supply Agreement or to give credits against amounts due from the Municipality under the Supply Agreement is limited to amounts the Issuer receives under the Prepaid Gas Agreement or otherwise available to the Issuer in connection with the transaction for which such payment or credit relates; (iii) any imbalance, transportation, tax, or indemnification charges for which the Issuer is responsible under the Prepaid Gas Agreement are to be considered imbalance, transportation, tax, indemnification charges incurred by the Issuer under the Supply Agreement; and (iv) any event of Force Majeure affecting the delivery of gas by the Seller under the Prepaid Gas Agreement will be considered an event of Force Majeure affecting the Issuer with respect to the delivery of gas under the Supply Agreement.

The Commodity Price Hedge

The Commodity Swap

The variable price received by the Issuer for gas sold to the City will be hedged by the Commodity Swap under terms that are expected to enable the Issuer to receive a revenue stream with respect to the sale of such gas that is substantially fixed for the life of the Prepaid Gas Agreement.

The monthly floating and fixed payments that are to be made by the Issuer and the Swap Counterparty under the Commodity Swap will be netted pursuant to the terms of the Commodity Swap. Net payments required to be made by the Swap Counterparty under the Commodity Swap (*i.e.*, "Commodity Swap Receipts") are Revenues of the Issuer and are required to be deposited to the Revenue Fund created by the Indenture. Pursuant to the Indenture, net payments required to be made by the Issuer under the Commodity Swap (*i.e.*, "Commodity Swap Payments") are payable from Revenues immediately subsequent to the application of such Revenues to the required deposits to the Debt Service Fund. See "TERMS OF THE BONDS—Revenues and Flow of Funds."

The Indenture requires that the Swap Counterparty be rated at least A1/A+/A+ by Moody's, S&P and Fitch, respectively. In the event that the Swap Counterparty is assigned one rating that is below Aa3/AA-/AA- by Moody's, S&P or Fitch, respectively, the terms of the Commodity Swap require the Swap Counterparty to post collateral in the amount of the fixed swap rate times the monthly volume of gas that is the subject of the Commodity Swap for the most recent, current and next month. Such collateral will cover the maximum exposure to a default by the Swap Counterparty for a period of three consecutive months.

Pursuant to the terms of the Commodity Swap, a default by the Swap Counterparty or a termination event under which the Swap Counterparty id the affected party will result in (a) an assignment of the Commodity Swap to a third party who satisfies the minimum rating requirements within 30 days, or if such assignment is not achieved in the specified time, (b) a termination of the Commodity Swap and the automatic termination of the Prepaid Gas Agreement.

Should the Swap Counterparty be downgraded below the minimum ratings required by the Indenture, the Issuer and the Seller are obligated to use their best efforts to assign the Commodity Swap and the Seller Commodity Swap to a third party within 30 days. If no such assignment is made, the Commodity Swap will terminate and an automatic termination of the Prepaid Gas Agreement will occur.

The Seller Swap Agreement

Concurrently with the Issuer's execution and delivery of the Commodity Swap, the Seller will enter into the Seller Swap Agreement with terms representing an offsetting match of the related commodity hedge transaction entered into between the Issuer and the Swap Counterparty.

Information Regarding the Swap Counterparty

Set forth below is certain publicly available information with respect to the Swap Counterparty. No representation is made by Issuer as to the accuracy or completeness of the information. The Swap Counterparty has not guaranteed, nor is it responsible for payment of, the Bonds.

The Swap Counterparty, JPMorgan Chase Bank, National Association (referred to in this subsection as the "Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is chartered, and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2006, the Bank had total assets of $1,173.7 billion, total net loans of $401.9 billion, total deposits of $613.3 billion, and total stockholder's equity of $92.0 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income as at September 30, 2006, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2005, of JPMorgan Chase & Co., the 2005 Annual Report of JPMorgan Chase & Co., as amended, and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information above regarding the Swap Counterparty relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this subsection of the Official Statement is correct as of any time subsequent to its date.

The Funding Agreement

Set forth below is a summary of certain provisions of the Funding Agreement. This summary does not purport to be complete, and reference is made to the entire Funding Agreement, copies of which are available as described under the caption "INTRODUCTION," for a more complete description thereof.

The Funding Agreement provides that the Seller is obligated to make advances to the Issuer to cure Covered Termination Deficiencies and Covered Swap Deficiencies.

In the event a Covered Termination Deficiency exists, the Trustee is to provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Termination Advance to the Trustee, not later than the day which is one day after the Seller's receipt of such notice (or if such day is not a Business Day, the next succeeding Business Day). The amount of such Mandatory Termination Advance is to be the amount necessary so that the amount on deposit in the Termination Fund on the Early Redemption Date will be sufficient to pay the Redemption Price and accrued interest to such Early

Redemption Date of the then outstanding Bonds and any termination payment that may be due to the Qualified Provider. See "TERMS OF THE BONDS—Revenues and Flow of Funds—Termination Fund."

In the event a Covered Swap Deficiency exists, the Trustee is to provide notice of such deficiency to the Seller. The Seller is required to make a Mandatory Swap Advance to the Trustee, not later than the day which is one day after the Seller's receipt of such notice (or if such day is not a Business Day, the next succeeding Business Day). The amount of such Mandatory Swap Advance is the amount of the regularly scheduled swap payment that would have been made by the Swap Counterparty under the Commodity Swap had a termination event with respect to the Swap Counterparty or an event of default with respect to the Issuer not occurred.

The Funding Agreement also provides the Seller with the right to make one or more Optional Advances to cure any Covered General Deficiency. As provided in the Indenture, the Trustee is to give notice to the Seller within two Business Days upon becoming aware that a Covered General Deficiency exists and specifying the amount necessary to cure such Covered General Deficiency. Upon receipt of such notice the Seller may, in its sole discretion, but is not obligated to, make an Optional Advance. The Seller is to notify the Trustee and the Issuer of its decision whether or not to make an Optional Advance on the Business Day next following the day of receipt of such notice from the Trustee. If the Seller agrees to make an Optional Advance, the Seller will make such Optional Advance to the Trustee, on the second Business Day next following the day of receipt of such notice from the Trustee. The amount of each Optional Advance is to be the amount necessary to cure the Covered General Deficiency.

Amounts advanced pursuant to the Funding Agreement are to be deposited in accordance with the provisions of the Indenture relating to such advances. See "TERMS OF THE BONDS—Revenues and Flow of Funds." The term of the Funding Agreement is the same as that of the Indenture. The Seller's payment obligations under the Funding Agreement will be guaranteed pursuant to the Funding Guarantee. See "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

THE ISSUER

Relationship to the City

The Issuer is a joint exercise of powers agency and public entity of the State created by the City and the City of Roseville Redevelopment Authority on December 6, 2006 for the purpose, *inter alia*, of acquiring, financing, and supplying natural gas for the City. The City is governed by a five-member council, each member of which serves on the Board of Directors of the Issuer and the Board of Directors of the Redevelopment Authority. Currently, the officers of the Issuer are employees of the City.

Board Members and Officers of the Issuer

The names of the officers and members of the Board of Directors of the Issuer are set forth in the following table:

NAME	POSITION	OCCUPATION	DIRECTOR TERM EXPIRES
Jim Gray	Mayor/Chair	Retired	2010
Gina Garbolino	Mayor Pro Tem/Vice Chair	Bank Vice-President	2010
Richard Roccucci	City Council Member/Board Member	Electrical Engineer/Consultant	2008
Carol Garcia	City Council Member/Board Member	Business Owner	2008
John Allard	City Council Member/Board Member	Bank Vice-President	2008
Craig Robinson	Executive Director	City Manager, City of Roseville	N/A
Sonia Orozco	Secretary	City Clerk, City of Roseville	N/A
Russ Branson	Treasurer	Administrative Services Director, City of Roseville	N/A

The directors and officers of the Issuer serve without compensation (except reimbursement of expenses), and no part of the Issuer's net earnings, income or assets may inure to the benefit of any private entity or person.

The Issuer's Limited Liability

The Issuer will enter into the Supply Agreement with the Municipality solely to facilitate the financing of the purchase of the Gas Supply. Under the Indenture, the Issuer assigns its rights and interests under the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Funding Agreement, the Seller Guarantee and the Funding Guarantee to the Trustee for the benefit of the owners of the Bonds. The owners of the Bonds will have no right to look to the Issuer, or any of its non-pledged assets, for any payment due on the Bonds. Furthermore, none of the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, the Funding Agreement, the Seller Guarantee, the Funding Guarantee and the Indenture creates a pecuniary liability on the part of any directors or officers of the Issuer.

As of the date of this Official Statement, the transaction represented by the Bonds, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement and the Commodity Swap represent the only significant business of the Issuer.

Restriction on Additional Obligations

The Issuer currently has no substantial assets or revenues other than those that are pledged to the payment of the Bonds. The Issuer has covenanted in the Indenture that it will not issue any bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Commodity Swap, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate or any other of its assets. In connection with such covenant, the Issuer will not create or cause to be created any lien or charge on the Trust Estate or any other its assets, other than the lien and charge created by the Indenture to secure the Bonds, and the lien and charge securing such refunding obligations and the Commodity Swap.

THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE

The Seller and Seller Guarantor

Set forth below is certain publicly available information with respect to the Seller and the Seller Guarantor. The obligations of the Seller are limited to those set forth in the Prepaid Gas Agreement and the Funding Agreement, and the obligations of Seller Guarantor are limited to those set forth in the Seller Guarantee and the Advance Guarantee. Neither the Seller nor Seller Guarantor has guaranteed, nor is either responsible for the payment of, the Bonds.

The Seller, Merrill Lynch Commodities, Inc., is an indirect subsidiary of the Seller Guarantor, Merrill Lynch & Co., Inc. The payment obligations of the Seller under the Prepaid Gas Agreement and certain obligations of the Seller under the Funding Agreement are guaranteed by the Seller Guarantor. The Seller Guarantor is a diversified financial services holding company, which is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "*SEC*"). For further information concerning the Seller and the Seller Guarantor, see the consolidated financial statements of the Seller Guarantor and its subsidiaries included in the Annual Report on Form 10-K of the Merrill Lynch & Co., Inc. for the fiscal year ended December 30, 2005, subsequently filed quarterly reports, and any other documents which are publicly available, including any financial statements of the Seller Guarantor and its subsidiaries, that are included therein or attached as exhibits thereto, filed by Merrill Lynch & Co., Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the most recent Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds. Merrill Lynch & Co., Inc. files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-07182. Copies of Merrill Lynch & Co., Inc.'s SEC filings (including Merrill Lynch & Co., Inc.'s Annual Report on Form 10-K for the fiscal year ended December 30, 2005 and subsequently filed quarterly reports) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; and (ii) at the SEC's public reference room in Washington D.C.

The Seller Guarantee

Pursuant to the Seller Guarantee, the Seller Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any and all amounts payable by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Seller Guarantor. The Seller Guarantor, pursuant to the Seller Guarantee, covenants that the Seller Guarantee will not be discharged except by complete payment of the amounts payable under the Prepaid Gas Agreement.

The Funding Guarantee

Pursuant to the Funding Guarantee, the Seller Guarantor will unconditionally guarantee to the Issuer the due and punctual payment of any advance to be made pursuant to the Funding Agreement to the Issuer by the Seller, its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of the Seller Guarantor. The Seller Guarantor, pursuant to the Funding Guarantee, covenants that the Funding Guarantee will not be discharged except by complete payment of the amounts payable under the Funding Agreement.

THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.

Description of Customer Insurance Policy

The obligations of the Municipality to pay to the Issuer the Contract Price for the gas delivered or deemed delivered pursuant to the Supply Agreement will be guaranteed by FSA pursuant to the Customer Insurance Policy issued by FSA in favor of the Issuer and the Trustee, as assignee of the Issuer.

Customer Insurance Policy Limit

The aggregate amount payable by FSA pursuant to the Customer Insurance Policy is subject to a policy limitation contained in the Customer Insurance Policy, which maximum insured amount is $29,760,000. In general, the policy will cover the Municipality's obligations to pay for two consecutive months of gas with the maximum monthly volumes up to a Contract Price of $40.00/MMBtu. The Customer Insurance Policy insures only the payments required to be made by the Municipality for the Contract Price of the gas to be delivered to the Municipality under the Supply Agreement, and does not insure any other payments, including but not limited to costs, expenses (including, without limitation, indemnification), imbalance charges, default interest or fees, if any, that may be payable by the Municipality to the Issuer under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. The Customer Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Description of FSA

The following information has been supplied by FSA for inclusion in this Preliminary Official Statement. No representation is made by Issuer as to the accuracy or completeness of the information.

FSA accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding FSA and its affiliates set forth under this heading. In addition, FSA makes no representation regarding the Bonds, the tax-exempt status thereof, or the advisability of investing in the Bonds.

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

At September 30, 2006, FSA's combined policyholders' surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, FSA's consolidated shareholder's equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of FSA included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange

Commission are hereby incorporated by reference into this Official Statement. All financial statements of FSA included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Customer Insurance Policy insures only the payments required to be made by the Municipality for the gas delivered pursuant to the Supply Agreement and does not insure other payment obligations of the Municipality under the Supply Agreement. The Customer Insurance Policy does not constitute a guarantee of the Issuer's obligations with respect to the Bonds. The Customer Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the Bonds or the advisability of investing in the Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

ABSENCE OF BOND LITIGATION

There is no litigation of any nature pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof or any proceedings of the Municipality in connection therewith. The Underwriter will receive certifications from representatives of the Issuer and the Municipality at the closing of the sale of the Bonds to the effect that no such litigation is pending or, to their knowledge, threatened or anticipated.

APPROVAL OF LEGAL MATTERS

Legal matters incidental to the authorization and issuance of the Bonds are subject to receipt of the opinion of Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, in substantially the form set forth in Appendix E to this Official Statement, which will be delivered with the Bonds. Certain legal matters will be passed upon for the Underwriter by Nixon Peabody LLP, San Francisco, California, and for the Issuer and the City by the City Attorney of the City.

TAX MATTERS

In the opinion of Orrick Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "*Code*"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in Appendix E hereto.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will

be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of a Premium Bond should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Issuer and the Municipality have made certain representations and covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained in or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect an Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Owner or the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer or the Municipality, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer and the Municipality have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Municipality or the Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and the Municipality and their appointed counsel,

including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of Bonds is difficult, obtaining an independent review of IRS positions with which the Issuer or the Municipality legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Issuer, the Municipality or the Owners to incur significant expense.

CONTINUING DISCLOSURE

The Municipality, for and on behalf of itself and the Issuer, has covenanted in a Continuing Disclosure Certificate (the "*Undertaking*") for the benefit of the Beneficial Owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "*Rule*") adopted by the SEC under the Exchange Act. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and the other terms of the Undertaking, including termination, amendment and remedies, are set forth in the Undertaking, the form of which is attached to this Official Statement as Appendix F. Pursuant to the Supply Agreement, the Municipality has agreed to provide to the Issuer, upon its request, annual operating and financial information relating to its electric utility system as required by the Rule to the extent the Rule is applicable to issuance of the Bonds. Failure by the Municipality to comply with its undertaking is not a default under the Supply Agreement, but any such failure entitles the Issuer and the owner or owners of any of the Bonds to take such actions and to initiate such proceedings as shall be necessary and appropriate to cause the Municipality to comply with its undertaking as set forth in the Supply Agreement, including the remedies of mandamus and specific performance.

The Municipality is obligated under undertakings pursuant to the Rule with respect to certain of its outstanding indebtedness. Such undertakings generally require the filing of annual report within seven months after the end of each fiscal year, or January 31 of each year based on the City's current fiscal year ending on June 30. There has been one instance in the previous five years, for the fiscal year ending June 30, 2003, in which the Municipality has failed to file the annual report under its continuing disclosure undertaking within the required time period. The report was due on January 31, 2004 and was filed on February 19, 2004. In addition, the Municipality did not timely file a notice of the failure to file the January 31, 2004 annual report as required by previous undertakings.

The Municipality has now filed all annual reports required to be filed as of the date of this Official Statement. The Municipality has agreed to put procedures in place to ensure that in the future, the obligations of the Municipality under its continuing disclosure undertakings will be satisfied in a timely manner.

A failure by the Municipality to comply with the Undertaking will not constitute an event of default under the Indenture, and Beneficial Owners of the Bonds are limited to the remedies described in the Undertaking. A failure by the Municipality to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

FINANCIAL STATEMENTS

No financial statements for the Issuer are included herein. The financial statements of the City of Roseville, California for the year ended June 30, 2006 attached hereto as Appendix B have been audited

by Maze & Associates, A Professional Corporation, Pleasant Hill, California, for the period indicated in their report thereon included in Appendix B.

FINANCIAL ADVISOR

McDonald Partners, Inc. (the "Financial Advisor") has assisted the Issuer with various matters relating to the planning, structuring and delivery of the Bonds. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or any other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "*Underwriter*") has agreed, subject to certain conditions, to purchase the Bonds from the Issuer at an aggregate underwriting discount of $1,008,153.28 from the initial public offering prices set forth on the inside cover page hereof. The obligation of the Underwriter to purchase the Bonds is subject to certain terms and conditions set forth in the purchase contract entered into between the Underwriter and the Issuer. Specifically, the Underwriter is obligated to purchase all the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the initial offering prices, and such initial offering prices may be changed from time to time by the Underwriter.

CERTAIN RELATIONSHIPS

The Seller, Merrill Lynch Commodities, Inc., is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Underwriter, Merrill Lynch, Pierce, Fenner & Smith Incorporated, is also a wholly-owned subsidiary of Merrill Lynch & Co., Inc. The financial obligations of the Seller are guaranteed by Merrill Lynch & Co., Inc., to the extent set forth in the Seller Guarantee and the Funding Guarantee. Neither the Seller nor Merrill Lynch & Co., Inc. has guaranteed or is responsible for the payment of the Bonds. The obligations of the Seller and, by virtue of the Seller Guarantee, Merrill Lynch & Co., Inc., are limited to those set forth in the Prepaid Gas Agreement. Neither Merrill Lynch & Co., Inc. nor the Seller takes any responsibility for the information set forth herein other than the information set forth under the caption "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE."

As described under the caption "THE ISSUER—Relationship with the City," the Issuer is a joint action agency, whose members include the City and the City of Roseville Redevelopment Agency and whose Board of Directors is the same as the City Council of the City and the Board of Directors of the City of Roseville Redevelopment Agency. The officers of the Issuer are employees of the City.

The City Attorney for the City is an employee of the City. The City Attorney is representing both the Issuer and the City in connection with the issuance of the Bonds and the transactions represented by the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement and the Commodity Swap.

RATINGS

The Bonds have been assigned the ratings set forth on the cover page of this Official Statement. Each of these ratings reflects only the view of the rating agency assigning it; any explanation of the significance of the rating should be obtained from the rating agency itself. The Issuer and the Municipality furnished to the rating agencies certain materials and information relating to the Bonds, themselves, FSA, the Seller and Seller Guarantor. Generally, rating agencies base their ratings on such

materials and information and on their own investigations, studies and assumptions. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any downward change in or withdrawal of a rating could have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The summaries and explanations of provisions of law and documents in this Official Statement, including the information in the appendices, do not purport to be complete, and are qualified by this reference to such provisions, including the provisions in the Indenture and the other documents discussed above under the caption "INTRODUCTION," where information is provided regarding how to obtain copies of such documents for a full and complete statement of their terms.

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

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: /s/ W. Craig Robinson

Title: Executive Director

materials and information and on their own investigations, studies and assumptions. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any downward change in or withdrawal of a rating could have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The summaries and explanations of provisions of law and documents in this Official Statement, including the information in the appendices, do not purport to be complete, and are qualified by this reference to such provisions, including the provisions in the Indenture and the other documents discussed above under the caption "INTRODUCTION," where information is provided regarding how to obtain copies of such documents for a full and complete statement of their terms.

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

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: /s/ W. Craig Robinson

Title: Executive Director

APPENDIX A — INFORMATION RELATING TO THE CITY OF ROSEVILLE AND THE ELECTRIC SYSTEM

THE CITY OF ROSEVILLE

Financial and economic data for the City of Roseville are presented in this Appendix for information purposes only. The Bonds are not a debt or obligation of the City, but are a limited obligation secured solely by the funds held under the Indenture.

The City of Roseville is located in Placer County, in California's Sacramento Valley near the foothills of the Sierra Nevada mountain range, about 16 miles northeast of Sacramento and 110 miles east of San Francisco. The City, with a population estimated to be approximately 105,000 at January 1, 2007, is the largest city in Placer County, as well as the residential and industrial center of the County.

There is a wide variety of land uses within the City. Most of the City's residential neighborhoods are located west of Interstate Highway 80; industrial facilities, including Hewlett-Packard, NEC Electronics, Inc. and SureWest Communications are concentrated in the north Roseville area.

Municipal Government

The City was incorporated on April 10, 1909 and is a charter city. The City operates under the council-manager form of government, with a five-member City Council elected at large for staggered four-year terms. At each election, the council member receiving the most votes is appointed mayor pro-tempore for two years and becomes mayor for the final two years.

City services include, among others, police and fire protection, library services, street maintenance, and parks and recreation. The City also owns two golf courses and provides its own electricity, water, sewer and refuse services to its citizens.

Population

Between 2001 and 2005, the City's population increased 25.5 percent, compared to a 21 percent increase for the County and 6.8 percent for the State for the same period. The City's growth in population is shown below.

City of Roseville
Population
2001 through 2005

Year	City of Roseville	Placer County	State of California
2001	82,200	254,900	34,385,000
2002	85,800	265,700	35,000,000
2003	93,300	283,500	35,612,000
2004	96,900	296,579	36,271,091
2005	103,185	308,431	36,728,196

Source: California State Department of Finance.

Major Employers

The following table sets forth the largest employers in the City as of June 30, 2006:

CITY OF ROSEVILLE
Major Employers
June 30, 2006

Employer Name	No. of Employees
Hewlett-Packard	3,857
Kaiser Permanente	3,062
Sutter Roseville Medical Center	1,922
Union Pacific Railroad	1,328
City of Roseville	1,233
Roseville Joint Union High School District	975
Roseville Elementary School District	840
NEC Electronics	800
PRIDE Industries	800
Wal-Mart	690

Source: City of Roseville Economic and Community Services Department.

THE ELECTRIC SYSTEM

History and Background

The City, through Roseville Electric, has been providing electrical power to its residents, businesses, and the City's street lighting system since 1912.

To provide a reliable supply of electric energy to its customers, the City participates in several resources developed by Northern California Power Agency (the "NCPA"), a consortium of municipal electrical utilities, and also purchases electric capacity from federal hydroelectric projects under a long term contract.

The remainder of the City's source of power supply is currently obtained through purchases on the open electricity market. See "Sources of Power Supply." The City is currently constructing a 160 MW natural gas fired generation plant ("Roseville Energy Park") that is expected to commence commercial operation in the summer of 2007.

See "THE ELECTRIC SYSTEM- Sources of Power Supply" below.

Organization and Management

Supervision by City Council and Roseville Public Utilities Commission. The City's Electric System is under the supervision of the City Council. The five-member Roseville Public Utilities Commission serves as an advisory board to the City Council on matters relating to all utilities owned and operated by the City. The City Council appoints all five members of the Public Utilities Commission. The Electric Utility Director manages the Electric System and reports to the Public Utilities Commission and the City Manager.

Senior Management. The Electric System's senior management consists of the following executives:

Tom Habashi, Electric Utility Director. Tom Habashi has served as Electric Utility Director since 1998. Mr. Habashi is a registered electrical engineer with a Bachelor of Science in Electrical Engineering and a Masters in Business Administration. He began his career as a junior engineering aide with the City of Burbank in 1981 and was promoted to assistant electrical engineer later that year. Mr. Habashi joined the Palo Alto Utilities Department as a Power Engineer in 1984 and was promoted to Senior Power Engineer in 1986, Senior Resource Planner in 1987, Manager of Resource Planning in 1992 and Assistant Director of Utilities, Resource Management in 1995.

David Brown, Assistant Electric Utility Director-Distribution. David Brown has served as Assistant Electric Utility Director-Distribution since June 2001. He began working for Roseville Electric in 1987 after graduating from California State University, Sacramento with a Bachelor of Science degree in Electrical Engineering. He is responsible for the distribution operations of the Electric System which include operating and maintaining the City's electric distribution system, preparing budgets, managing 70 employees, and planning system improvement projects and overseeing their design and construction. Mr. Brown is a registered electrical engineer in the State of California.

Tom Green, Assistant Electric Utility Director—Power Supply. Tom Green served as Power Supply Manager for Roseville Electric from April 2001 until assuming his current position in March 2005. Mr. Green is responsible for managing the City's electric supply portfolio including power market assessment, risk management, power plant generation, power purchases and sales, settlements, transmission, and administration. He is also responsible for the management of contractual relations with the Western Area Power Administration of the federal government (hereinafter, "Western"), NCPA and the California Independent System Operator ("ISO"). Prior to joining the City, Mr. Green was employed 13 years by NCPA where he led marketing and contractual activities related to bulk electric power services provided to NCPA members. Previously, he was employed for 11 years by the State of California, Department of Water Resources in the Department's Energy Division. Mr. Green graduated from California State University, Sacramento with a Bachelor of Arts Degree in Government.

Michelle Bertolino, Assistant Electric Utility Director, Administrative and Retail Services. Michelle Bertolino has worked at Roseville Electric since 2002. She is responsible for management of administrative and retail energy services which include financial analysis and forecasting, energy and load research and forecasting, ratemaking, budget development, demand side management, development of public benefits activities, energy efficiency programs and customer service activities including key and major account representation. Prior to joining the City, Ms. Bertolino was employed by the Sacramento Municipal Utility District and San Francisco Public Utilities Commission. She graduated from the University of California, Santa Barbara and attended the Graduate School of Management at the University of California, Davis. She received her Certified Public Accountant license from the State of California.

Employees

As of June 30, 2006, approximately 127 City employees were assigned specifically to the Electric System. Certain functions supporting the Electric System operations, including meter reading, customer billing, collections and accounting, are performed by the Finance Department of the City.

Most of the non-management City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers. The current Memorandum of Understanding with the International Brotherhood of Electrical Workers expired on December 31, 2006. There have been no strikes or other work stoppages at the City, including the Electric System. A new four-year tentative agreement has been reached, subject to ratification by the International Brotherhood of Electrical Workers and the City Council of the City.

Retirement benefits to City employees, including those employees assigned to the Electric System, are provided through the City's participation in the Public Employees Retirement System (CALPERS) of California. As of June 30, 2006, the City had an unfunded pension liability of approximately $55.6 million (indicating the prior year's unfunded amount) including approximately $41 million in the miscellaneous category. The allocation of such liability to the electric department varies from year to year; for fiscal year 2005-2006 approximately 17 percent of the miscellaneous category was allocable to the Electric System.

Service Area, Customer Base and Demand

Service Area. The Electric System serves an area of approximately 36 square miles, coterminous with the City's borders. During fiscal year 2005-2006, it served 48,524 customers, as further described in Table 1 below. See "THE CITY OF ROSEVILLE" above for background and demographic information about the City.

Demand. As shown in Table 1 below, electricity use increased 2.5 percent during fiscal year 2004-2005 and 5.9 percent during fiscal year 2005-2006. The City attributes this growth to the vibrant economy in Roseville as well as market factors affecting electric consumption practice for the residential and small commercial market segments.

Customer Base. Since 2002 the Electric System's customer base has increased by 18 percent, or an average of nearly four percent per year. This growth rate has been a result of expansion in all sectors of the economy, and the strong residential growth trend which added over 6,600 residential units during that time frame.

The City has experienced significant commercial growth in the last four years including retail shopping areas, hotels and office space that have contributed to the City's economy.

Projected Growth in Customer Base. By the end of fiscal year 2006-2007, electricity use in the City is expected to increase by more than four percent compared to fiscal year 2005-2006 levels. See "THE ELECTRIC SYSTEM—Sources of Power Supply—Future Power Supply Resources" and "ELECTRIC SYSTEM FINANCIAL INFORMATION—Projected Operating Results."

The City attributes this projected increase to growth in most sectors of the local economy. Over the next five years growth is expected to continue. Retail, commercial, medical facilities and hotels are planned or under construction. Residential development also is expected to continue throughout the City, with over 7,000 new residences anticipated over the next five years. Future development is expected to include (a) areas west of the City limits annexed to the City and to be developed in accordance with the West Roseville Specific Plan, which includes approximately 3,300 acres and is approved for approximately 7,000 proposed residential units, (b) approximately 6,000 residential units at various infill locations within the City limits, and (c) a proposed annexation known as the MOU Remainder Area, which may bring over 2,000 dwelling units over the next five years and an additional 5,000 thereafter, as well as over 100 acres of commercial development.

The City is expecting several existing electricity customers to experience significant growth over the next few years. Kaiser Hospital and Sutter Hospital are increasing their operations significantly with the addition of medical office buildings, beds, an emergency room and a new surgery and intensive care unit addition. The bulk of the new load is expected by 2008. In addition, the Westfield Galleria Mall in Roseville is planned for expansion. The County of Placer is replacing its small justice facilities in the City with a regional Justice Center, including law enforcement offices, detention facilities, and courthouse. The Justice Center is currently projected to phase in from 2007 through 2009.

The City anticipates that the effect of the annexation and expected growth on the Revenues of the Electric System will be offset by increases in operating expenses in order to meet the increased electricity demand. The effect of these annexations has been incorporated into the projected operating results of the Electric System. See "CAPITAL PLAN" and "ELECTRIC SYSTEM FINANCIAL INFORMATION Projected Operating Results."

Historical Customers, Sales and Peak Demand. The average number of customers, electricity sales measured in kilowatt-hours ("kWh") and in revenues, and peak demand during the past five fiscal years, are listed below. The decline in peak demand for fiscal year 2004-2005 was primarily due to lower than expected temperatures.

Table 1
Customers, Sales and Peak Demand Fiscal Years Ended June 30

	2002	2003	% Change	2004	% Change	2005	% Change	2006	% Change
Number of Customers									
Residential	36,373	38,054	4.62%	40,312	5.93%	41,883	3.90%	43,001	2.67%
Commercial	4,506	4,720	4.75%	5,101	8.07%	5,410	6.06%	5,523	2.08%
Total	40,879	42,774	4.64%	45,412	6.17%	47,294	4.14%	48,524	2.60%
kWh Deliveries									
Residential	297,252,852	335,789,626	12.96%	381,799,100	13.70%	392,815,270	2.89%	424,915,178	8.17%
Commercial	631,099,644	686,404,562	8.76%	717,219,609	4.49%	733,576,815	2.28%	767,561,991	4.63%
Total	928,352,496	1,022,194,188	10.11%	1,099,018,709	7.52%	1,126,392,085	2.49%	1,192,477,169	5.87%
Revenues									
Residential	$26,050,644	$29,062,613	11.56%	$34,565,885	18.94%	$36,306,339	5.04%	$40,900,083	12.65%
Commercial	45,495,357	49,331,010	8.43%	53,053,597	7.55%	55,577,366	4.76%	60,302,788	8.50%
Total	$71,546,357	$78,393,623	9.57%	$87,619,483	11.77%	$91,883,705	4.87%	$101,202,871	10.14%
Peak Demand	239,400	274,650	14.72%	294,600	7.26%	282,090	(4.25)%	319,260	13.18%

Source: City of Roseville

Ten Largest Customers. The ten largest customers of the City's Electric System, as of June 30, 2006, are shown in Table 2 below.

Table 2
Ten Largest Customers as of June 30, 2006

Customer	Type of Business	% of Total kWh	% of Total Revenues
NEC Electronics	Manufacturing	12.1%	9.2%
Hewlett-Packard	Office/Manufacturing	5.5	4.4
Roseville Wastewater Treatment	Utility	1.8	1.5
Cassie Hill Center	Data Processing	1.6	1.3
Kaiser Hospital	Medical	1.3	1.1
Sutter Roseville Medical Center	Medical	1.2	1.0
SureWest Communications	Communications	0.9	0.7
Urban Retail Properties	Shopping Mall	0.7	0.7
Southern Pacific	Railroad	0.7	0.5
Albertsons	Warehouse/Distribution	0.7	0.5
Total		26.4%	20.9%

Source: City of Roseville

Sources of Power Supply

General. The City acquires power supply from three major sources: a long-term contract with Western; entitlements to a percentage of the capacity and energy of certain NCPA generation projects; and the open market for electricity. Table 3 below provides a summary of the City's sources of power supply, which are further described in detail below.

Table 3
Sources of Power Supply Fiscal Year Ended June 30, 2006

Source	Capacity Available (MW)	Actual Power (GWh)	% of Total
Western[1]	67.0	297.8	23%
NCPA[1]			
Geothermal Project	10.0	71.7	6
Hydroelectric Project	29.0	116.6	9
Combustion Turbine Project No. 1	19.0	0.4	0
Steam Injected Gas Turbine Generator Project	18.1	21.7	2
Seattle City Light[2]	20.0	30.2	2
Open Market Purchases[3]	200.0	760.7	59
Total	362.9	1,299.1	

Source: City of Roseville

1 Entitlements, firm allocations, and contract amounts.

2 This is a seasonal exchange agreement whereby the City receives more capacity and Seattle receives more energy on an annual basis.

3 Net firm and non-firm energy purchases on the open market.

Western Base Resource Agreement.

Roseville has a long-term contract with Western that provides Roseville with approximately 4.5 percent (approximately 67MW) of the output of the Central Valley Project generation net of project use, first preference allocations and control area obligations. The contract provides varying amounts of capacity and energy depending on hydrology and water storage conditions. The term of the agreement extends through December 31, 2024.

NCPA Geothermal Project.

Description. NCPA has developed a geothermal project (the "NCPA Geothermal Project") located on federal land in certain areas of Sonoma and Lake Counties, California, in addition to the geothermal leasehold, wells, gathering system and related facilities, the NCPA Geothermal Project consists of two electric generating stations (Geothermal Plant I and Geothermal Plant 2), each with two 55 MW (nameplate rating) turbine generating units utilizing low pressure, low temperature geothermal steam, associated electrical, mechanical and control facilities, a heat dissipation system, a steam gathering system, a transmission tapline and other related facilities.

Geothermal steam for the NCPA Geothermal Project is derived from geothermal property, which includes wellpads, access roads, steam wells and reinjection welts.

Ownership and Management. NCPA formed two not-for-profit corporations controlled by its members to own the generating plants of the NCPA Geothermal Project. NCPA manages the NCPA

Geothermal Project for the corporations and is entitled to all the capacity and energy generated by the NCPA Geothermal Project.

Financing. NCPA financed the NCPA Geothermal Project with NCPA Geothermal Project Number 3 Revenue Bonds, of which $217.3 million were outstanding as of June 30, 2006 (which represents total debt not including approximately $25 million in debt that has been economically defeased). The annual debt service on these bonds ranges from $3.0 million to $56.4 million, with a final maturity of July 1, 2010. The City's share of debt service is approximately $2.4 million per year.

City's Entitlement. The City has purchased from NCPA, pursuant to power sales contracts, a 7.88 percent entitlement share in the NCPA Geothermal Project and is obligated to pay a like percentage of all of the debt service and operating costs of the NCPA Geothermal Project.

Operation. Due to a decline in the steam field production, the NCPA Geothermal Project is currently being operated at an average of 126 MW rather than the base load of 238 MW. NCPA has implemented a number of strategies to reduce the rate of decline in steam field productions, such as lowering steam turbine operating pressures to improve mass flow, and augmenting mass flow by managing the injection of plant condensate and supplemental water. These changes have been effective in reducing the decline in steam production.

Due to current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease, reaching approximately 113 MW by the year 2010, and remaining in excess of 72 MW through 2030, the end of the study period.

NCPA Hydroelectric Project Number One.

Description. NCPA's Hydroelectric Project Number One (the "NCPA Hydroelectric Project") consists of (a) three diversion dams, (b) the 252 MW Collierville Powerhouse, (c) the Spicer Meadow Dam with a 5.5-MW powerhouse, and (d) associated tunnels located essentially on the North Fork Stanislaus River and on the Stanislaus River in Alpine, Tuolumne and Calaveras Counties, California, together with required transmission facilities.

Ownership and Management. The NCPA Hydroelectric Project (with the exception of certain transmission facilities discussed below) is owned by the Calaveras County Water District ("CCWD") and is licensed to CCWD by FERC under its license for Project No. 2409, which has a term of 50 years and expires in 2032.

Under a power purchase contract, NCPA (i) is entitled to the electric output of the NCPA Hydroelectric Project until fiscal year 2031-32, (ii) managed the construction of the NCPA Hydroelectric Project and (iii) operates the generating and recreational facilities of the NCPA Hydroelectric Project.

Under a separate FERC-issued license for Project No. 11197, with an expiration date coterminous with its license for Project No. 2409, NCPA holds the license to and owns two transmission lines from the NCPA Hydroelectric Project (the 230 kilovolt ("kV"); 1 kilovolt equals 1,000 volts).

Financing. NCPA financed the NCPA Hydroelectric Project through the issuance of the NCPA Hydroelectric Project Number One Revenue Bonds, of which approximately $501.1 million were outstanding as of June 30, 2006.

The City's nominal share of debt service is 12 percent, but the actual percentage share paid by the City is 9.9 percent due to certain economic defeasance portfolios established in 1998, under which a portion of the City's share of debt service was prepaid. The City's share of annual debt service (net of

these economic defeasance portfolios) continues to the year 2032 and ranges from $2.4 million to $4.3 million.

City's Entitlement. The City has a 12 percent entitlement share of the generating output of the NCPA Hydroelectric Project.

Operation. The operation of the NCPA Hydroelectric Project is determined by consideration of its storage capacity and available stream flows. The NCPA Hydroelectric Project's average production is estimated to be 550 GWh annually, based on the 108-year record (1895 to 2003) of stream flows on the two rivers supplying water to the project.

NCPA Combustion Turbine Project Number One.

Description. NCPA has developed its Combustion Turbine Project Number One (the "NCPA Combustion Turbine Project") consisting of five combustion turbine units, each nominally rated 25 MW. Two of the units are located in the City, two are in the City of Alameda and one is in the City of Lodi.

Financing. NCPA financed the NCPA Combustion Turbine Project through the issuance of the NCPA Combustion Turbine Project Number One Revenue Bonds, of which $24.8 million was outstanding as of June 30, 2006. The debt service on these bonds is approximately $4.3 million annually with a final maturity of August 15, 2010. The City's share in the debt service on these bonds is 13.58 percent. The City's share of annual debt service is approximately $600,000 per year.

City's Entitlement. Under a power sale contract, the City has purchased from NCPA a 13.58 percent entitlement share in the NCPA Combustion Turbine Project. As is typical of reserve and peaking resources, the average cost per kWh of power delivered to participants in the NCPA Combustion Turbine Project is comparatively expensive.

Operation. The NCPA Combustion Turbine Project provides capacity (i) that is economically dispatched during the peak load period to the extent permitted by air quality restrictions and (ii) that is used to meet capacity reserve requirements (which is operated only during emergency periods when other resources are unexpectedly out of service).

NCPA Steam Injected Gas Turbine Generator Project, Unit One.

Description, in 1992, NCPA undertook the financing of its Steam Injected Gas Turbine (a "STIG"), Unit One, with a design rating of 49.9 MW located in Lodi.

Financing. NCPA financed the NCPA Steam Injected Gas Turbine Generator Project through the issuance of $152.3 million of Multiple Capital Facilities Revenue Bonds, all of which have since been refunded or defeased with a subsequent issue of refunding bonds, approximately $67.2 million of which was outstanding as of June 30, 2006. The annual debt service on these refunding Bonds ranges from $485,000 to $5.9 million, with a final maturity in 2026. The City's share of annual debt service is approximately $2.0 million per year.

City's Entitlement. The capacity and energy of STIG Unit One is purchased through a contractual arrangement among the City, Alameda, Lompoc and Lodi, under which the City has purchased from NCPA a 36.55 percent entitlement share in the NCPA STIG Unit One. NCPA has entered into arrangements on behalf of the NCPA STIG Unit One Participants to provide for a gas supply for STIG Unit One.

Operations

Seattle City Light Power Capacity and Energy Exchange Agreement. NCPA, on behalf of Healdsburg, Palo Alto, Ukiah, Lodi and the City, executed a seasonal exchange agreement with Seattle City Light for 60 MW of summer capacity and energy and a return of 46 MW of capacity and energy in the winter. Deliveries under the agreement began June 1, 1995 and will terminate no earlier than May 31, 2014. The City has a 33.33 percent share of the benefits and burdens of the seasonal exchange agreement.

Open Market Term Purchase and Sale Agreements. The City enters into various fixed-price purchase or sale contracts on the open market at various times to meet its power supply requirements and hedge its portfolio costs consistent with its risk management policies. The City currently has one multi-year power purchase contract for 100 MW of on-peak energy with Morgan Stanley Capital Group, Inc. that expires on December 31, 2010. The City has sold back to Morgan Stanley on a forward basis 25MW of on-peak energy for the period January 1, 2007 through December 31, 2010 and 50 MW of on-peak energy for the calendar year 2008.

The City has also entered into several short-term purchases from a number of power suppliers. The terms of these short-term purchase agreements range from one to three months.

Future Power Supply Resources. The City is currently constructing the Roseville Energy Park. Roseville Energy Park generally consists of a nominal 120 megawatt (MW) natural gas-fired generation facility to be located on 12 acres of a larger City-owned parcel adjacent to and north of the Pleasant Grove Wastewater Treatment Plant. The plant includes the ability to peak-fire up to 160 MW nominal during summer peak demand conditions through the use of duct burners in the heat recovery steam generators. The project includes two Siemens combustion turbine-generators ("CTGs"), two Vogt heat recovery steam generators ("HRSGs"), a single condensing steam turbine generator ("STG"), a de-aerating surface condenser; a four-cell mechanical draft cooling tower; and associated support equipment. Gemma Power Systems California, Inc. is serving as the lead contractor for the Roseville Energy Park pursuant to an Engineering, Procurement and Construction contract. Engineering services are being provided to Gemma by Parsons E&C. The Roseville Energy Park is fully permitted and expected to commence commercial operations in the summer of 2007.

PG&E will own and maintain the new natural gas supply pipeline that will serve the Roseville Energy Park. The City will contract with natural gas suppliers to supply natural gas to the Roseville Energy Park via the PG&E pipeline network. The natural gas the City is obligated to purchase under the Gas Supply Agreement is expected to provide approximately 53 percent of the City's expected gas requirements for Roseville Energy Park.

In addition to the Roseville Energy Park, the City expects that it will obtain additional resources from market purchases or investment in generation facilities, either independently, through NCPA or other agencies.

Table 4
Projected Energy Requirements and Resources
Fiscal Years 2006-2007 through 2014-2015
(GWh)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
City-Owned Generation									
Roseville Energy Park	54	692	707	783	724	737	566	591	619
Joint Powers Facilities									
Geothermal Project	86	84	82	80	78	76	73	72	70
Hydroelectric Project	66	70	67	67	66	67	66	66	67
Combustion Turbine Project No. 1	7	1	1	1	1	1		-	0
Steam Injected Gas Turbine Generator Project	42	39	42	47	46	38	22	20	24
Subtotal:	253	887	900	979	916	918	727	749	780
Long-Term Purchases and Exchanges									
Western	153	153	153	153	153	153	153	153	153
Morgan Stanley Capital Group	430	245	123	123	62				
Seattle City Light	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Subtotal:	576	392	269	269	208	146	146	146	146
Net Short-Term Market Purchases (Sales)	506	70	224	185	349	448	675	685	687
Total Energy Resources	1,335	1,349	1,393	1,432	1,472	1,513	1,548	1,580	1,612
Total Energy Requirements	1,335	1,349	1,393	1,432	1,472	1,513	1,548	1,580	1,612

Source: City of Roseville.

Power Supply Risk Management

The Electric System has in place a rigorous risk management program to ensure that customers will, to the extent possible, be insulated from the volatility of energy supply (energy and natural gas) prices. The Electric System established a Risk Oversight Committee ("ROC"), risk management policies and procedures. The ROC meets quarterly to review energy trading activities and to ensure adherence to the risk management policies.

All energy purchases are made to supplement existing resources to meet forecasted load requirements. Generally, the City purchases or sells energy that is deficit or surplus to its retail customer needs independently within a 12-month horizon and by using the scheduling and load following services of ACES Power Marketing within a 30-day horizon. The City's risk management policies include short-term and long term measures.

In general, short-term measures limit market price exposure for the fiscal budget year to 5 percent or less of the City's budgeted purchased power cost and limit portfolio open volume to no more than +/- 10 percent of forecast load.

The City's long-term risk management strategy provides a ceiling for the percentage of unhedged energy (electricity and natural gas) to meet expected loads as follows:

Fiscal Year	Minimum Hedged Supply	Maximum Unhedged Supply
1	90%	10%
2	80%	20%
3-5	70%	30%
6-10	40%	60%

Source: City of Roseville

The policy requires that the City purchase forward electric contracts and/or forward gas contracts to fulfill its long-term hedged supply requirement. In the event of decreases in expected sales levels, the policy may require that the City sell forward gas and/or electric contracts. The policy also permits the use of financial commodity contracts to limit price risk.

The City's natural gas procurement strategy will primarily involve purchasing natural gas for Roseville Energy Park's expected operation at a monthly index price. The City will manage daily dispatch variation through the purchase or sale of natural gas at the daily index price. The City expects to hedge its monthly index purchases with financial contracts in accordance with its risk management policies.

Regional Transmission Facilities

ISO Controlled Grid.

NCPA Project generation and most market purchases are delivered over the ISO Controlled Grid to the electric system of Western, to which the City is physically interconnected. Western energy purchases are delivered to Roseville solely over Western transmission facilities.

NCPA Geysers Transmission Project.

Ownership and Description. In order to meet certain obligations required of NCPA to secure transmission and other support services for the NCPA Geothermal Project, NCPA and its transmission project participants (including the City) undertook the "Geysers Transmission Project," which includes (a) an ownership interest in PG&E's 230 kV line from Castle Rock Junction in Sonoma County to the Lakeville Substation, (b) additional firm transmission rights in this line, and (c) a central dispatch facility (see "- Dispatch and Scheduling" below).

Financing. NCPA financed the Geysers Transmission Project through the issuance of Transmission Project Number One Revenue Bonds, which were outstanding in the principal amount of approximately $5.5 million as of June 30, 2006. The City's share of debt service is approximately $60,000 per year.

City's Entitlement The City is entitled to a 14.18 percent share of the Geysers Transmission Project transfer capability, and is responsible for 14.18 percent of debt service on the Transmission Project Number One Revenue Bonds.

TANC California-Oregon Transmission Project.

Ownership and Description. Fourteen Northern California cities and districts, including the City, and one rural electric cooperative are members or associate members of a California joint powers agency known as the Transmission Agency of Northern California ("TANC").

TANC, together with the City of Vernon, California ("Vernon"), Western, three California districts and authorities and PG&E (collectively, the "COTP Participants") own the California-Oregon Transmission Project ("COTP"), a 339-mile long, 1,600 MW, 500 kV transmission power project between Southern Oregon and Central California. The COTP was placed in service on March 24, 1993, at a cost of approximately $430 million, and was financed through a combination of bonds and notes issued by TANC.

City's Entitlement. Under Project Agreement No. 3 for the COTP (the "TANC Agreement"), the City is entitled to 2.313 percent of TANC's share of COTP transfer capability (approximately 29.35 MW). In return, the City has severally agreed to pay, on an unconditional take or pay basis, 2.295 percent of the construction costs of the COTP, including debt service, and 2.313 percent of TANC's COTP operating and maintenance expenses. The City's share of annual debt service continues to the year 2024 and is approximately $700,000 per year.

City Use of COTP. The City uses its rights in the COTP to make power purchases for the Electric System and to deliver its share of the Seattle City Light contract energy.

Tesla-Midway Transmission Service.

The southern physical terminus of the COTP is near PG&E's Tesla Substation in the San Francisco Bay Area. The COTP is connected to Western's Tracy and Orinda Substations. TANC has arranged for PG&E to provide TANC and its members with 300 MW of firm bi-directional transmission capacity in its transmission system between its Tesla Substation and the Midway Substation (the "Tesla-Midway Service") under an agreement known as the South of Tesla Principles.

The City's share of this Tesla-Midway Transmission Service is 5 MW. The City utilizes its allocation of Tesla-Midway Transmission Service for firm and non-firm power transactions when available and economic to do so.

City Distribution System

The City owns and operates the electrical distribution system serving retail customers within the City's boundaries. The distribution system is connected to the Western system at the two connection points, the 230-kV Berry Street Receiving Station and the 230-kV Fiddyment Station. The distribution system consists of over 130 miles of overhead lines, 514 miles of underground lines and 14 substations. The City performs continued maintenance on its distribution system to sustain service reliability.

Dispatch and Scheduling

Beginning July 1, 2006, the City contracted with ACES Power Marketing (APM) to provide scheduling services and discontinued its participation in the NCPA Power Pool. NCPA continues to dispatch the NCPA power plants to meet the schedules submitted by APM. NCPA provides dispatch service from its dispatch control center located at its headquarters in the City.

Energy Efficiency and Conservation

AB 1890, the electric utility deregulation law, required the establishment of public benefit programs for investor owned and public power utilities through 2001. On September 30, 2000, the governor signed into law SB 1194 and AB 995, which extend the requirement to support public benefit electricity programs through January 1, 2012. The City funds these programs at five percent of gross revenues (approximately $5 million per year based on fiscal year 2005-2006 gross revenues).

Roseville Electric has developed a full portfolio of public benefits programs since 2001, addressing the four areas of concentration required by state law: low income assistance programs, renewable energy production, advanced electric technology demonstration and research and development, as well as energy efficiency programs.

Residential and commercial energy efficiency offerings focus on summer period consumption reduction and include programs for both existing facilities and new construction.

Plans for 2007 include Roseville Electric's BEST (Blueprint for Energy Efficiency and Solar Technology) Homes Program. The goal for the BEST Homes program is to ensure that 10-20 percent of all new homes built in Roseville utilize design criteria that substantially reduces the home's electricity bill. A typical BEST Home should create little or no demand on the electric grid during the summer peak period. The BEST Homes program offers generous financial incentives to builders who integrate energy efficiency and solar generation technology into new home construction.

Additionally, in 2007, Roseville Electric will implement a new residential load management program to reduce Roseville Electric's peak system load during the summer months of June, July, August, and September. The Load Control Program will be a voluntary program for City of Roseville residents. Load control devices will be installed on the customer's air conditioner or a programmable communicating thermostat will be installed inside the customer's home. These devices will allow Roseville Electric to send a signal to the device that will cycle the air conditioner off for short periods of time during system peak emergencies.

Insurance

The Electric System's insurance needs are handled by the Risk Management Division of the City's Human Resources Department. The City, including the Electric System, is self-insured for up to $500,000 for all insurance needs including casualty and liability and up to $250,000 for workers' compensation. The City has also joined with a group of other municipalities to participate in two joint powers authorities, the California Joint Powers Risk Management Authority, that provides excess coverage up to $25,000,000 for casualty and liability, and the Local Agency Workers' Compensation Excess Joint Powers Authority, for excess coverage up to $50,000,000 for workers' compensation.

Capital Improvement Plan

The City's currently anticipated capital improvement plan for the Electric System primarily encompasses both improvements to and expansion of the City's electricity distribution system and the final construction phases of the Roseville Energy Park. As shown in the Capital Plan below, the City is forecasting electric system capital spending of approximately $88 million over the next five years.

Table 5

Capital Improvement Plan Summary

Fiscal Year Ending June 30	Capital Improvement Projects
2006-07	$38,000,000
2007-08	22,000,000
2008-09	11,000,000
2009-10	9,000,000
2010-11	8,000,000
Total:	$88,000,000

Source: City of Roseville

The City expects to fund a portion of the capital improvement program with proceeds of its Series 2004 Certificates of Participation and its Series 2005 Certificates of Participation. As of June 30, 2006, there were approximately $81,000,000 of unexpended construction proceeds available for such purpose. The remaining capital expenditures are expected to be financed with revenues collected from rates.

Electric Rates

Rate-Setting Procedure. Under the City Charter and State law, the City has the exclusive jurisdiction to set electric rates within its service area by ordinance, which requires a majority vote of the City Council. These rates are not subject to review by the California Public Utilities Commission or any other state or federal agency.

The City Council reviews Electric System rates periodically and makes adjustments as necessary.

The City Council is also authorized by the City Charter to set charges, pay for and supply all electric power to be furnished to customers according to such schedules, tariffs, rules and regulations as are adopted by the City Council. The City Charter provides that the City Council will have the power to charge equitable rates for the electric services furnished and for building up the electric properties so as to conserve their value and increase their capacity as needed by the City.

In addition, the City Charter provides for the maintenance of the Electric Fund for the Electric System into which is deposited receipts from the operations of the Electric System and from which are payable the costs and expenses of the Electric System.

Service Charges and Demand Charge as of July 2006. The City's monthly residential electric rates currently include a $6.50 service charge plus $0.0809 per kWh consumed up to 500 kWh, and $0.1080 per kWh for consumption in excess of 500 kWh.

For non-residential customers, the monthly service charge ranges from $6.50 to $150.00 plus $0.0657 to $0.0869 per kWh consumed. Additionally, some non-residential customers are eligible for discounts ranging from two percent to 3.5 percent for primary service delivery and high load factors.

Certain non-residential users are also subject to a demand charge ranging from $2.59 per kW to $3.79 per kW.

Ten-Year History of Rate Adjustments. Over the past ten years, the City's retail electric rates have increased an average of 2.25 percent annually, well below the rate of inflation. Following is the City's rate change history:

- July 2007 – revenue rate increase of six percent for all customers (approved but not yet effective).
- July 2006 – revenue rate increase of five percent for all customers.
- April 2005 – revenue rate increase of five percent for all customers.
- January 2004 – revenue neutral rate changes; tiered rates for residential customers and customer rate class consolidation for commercial customers.
- July 2002 – four percent rate rebate for all customers (effective from September 2002 through August 2003).

- December 2001 – five percent revenue increase for residential and 7.5 percent revenue increase for commercial customers.
- October 2000 – revenue neutral rate realignment among the unbundled charges for all customers.
- January 2000 – revenue neutral rate adjustment to unbundled customer rates.
- July 1997 – revenue neutral rate adjustment increasing residential rates by seven percent and decreasing commercial rates by 3.5 percent.

Rate Comparison

The City's current retail electric rates are among the lowest in California and over 40 percent lower than the retail electric rates being charged by the investor-owned utility, Pacific Gas and Electric Company, in the Sacramento region. Table 6 below sets forth a comparison between average electric rates paid by City customers and PG&E customers.

Table 6

Electric Rate Comparison with PG&E (cents/kWh)
as of June 30, 2006

Customer Type	Roseville Electric Rates	PG&E Rates
Residential	$ 9.58	$ 14.49
Small Commercial	8.73	15.50
Medium Commercial	8.71	14.61
Large Commercial	5.44	12.07
System Average	8.42	13.94

Source: City of Roseville.

Electricity Rate Regulation

No Current Direct Regulation. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not currently subject to the regulatory jurisdiction of the California Public Utilities Commission, and presently neither the California Public Utilities Commission nor any other regulatory authority of the State of California nor FERC limits or restricts such rates and charges.

California Energy Commission. The California Energy Commission is authorized to evaluate rate policies for electric energy as related to goals of the Energy Resources Conservation and Development Act and make recommendations to the Governor, the Legislature and publicly owned electric utilities.

ELECTRIC SYSTEM FINANCIAL INFORMATION

Significant Accounting Policies

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and

changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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

The Electric Fund uses the accrual method of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Investments are stated at cost, inventories are valued at weighted average method. Capital assets are recorded at historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated.

Audited Financial Statements

The City's Annual Financial Report is audited by Maze & Associates, A Professional Corporation, Pleasant Hill, California (the "Auditor"), in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited financial statements.

Copies of these reports for prior fiscal years are available on the City's website, www.roseville.ca.us. *The website address is given for reference and convenience only and the current accuracy of information contained therein cannot be assured; nothing on the website is a part of this Official Statement or incorporated into this Official Statement by reference.*

The City's Annual Financial Report for the fiscal year ended June 30, 2006 is attached as Appendix B to this Official Statement.

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the Electric System. In addition, the Auditor has not reviewed this Official Statement.

Outstanding Indebtedness

Indebtedness Payable from Net Revenues of the Electric System.

Certificates of Participation. The City currently has outstanding certificates of participation (the "Outstanding Certificates") that were executed and delivered to finance and refinance improvements to the Electric System as described in the table below. The Outstanding Certificates are payable from certain payments to be made by the City under an installment purchase contract (the "Installment Purchase Contract"), the payments under which are payable from and secured by the Net Revenues of the Electric System ("Net Revenues" are defined generally as Revenues of the Electric System less the maintenance and operation costs of the Electric System during any 12-month period). Additional information regarding the Outstanding Certificates is provided in the Notes to the City's Annual Financial Report for the fiscal year ended June 30, 2006, which is included in this Official Statement as Appendix B.

Series	Original Date of Execution and Delivery	Original Principal Amount	Currently Outstanding Principal Amount
1997	Nov. 13, 1997	$ 11,880,000	$ 325,000
1999	Aug. 18, 1999	21,630,000	1,635,000
2002	Dec. 18, 2002	40,385,000	25,620,000
2004	July 13, 2004	39,940,000	39,940,000
2005	June 30, 2005	202,900,000	202,900,000

Source: City of Roseville.

Prior Obligations. The City participates in certain joint powers agencies, including NCPA and TANC, through which the City owes a share of debt service on debt issued by those joint powers agencies. See "THE ELECTRIC SYSTEM—Sources of Power Supply" and "—Regional Transmission Facilities."

Obligations of the City, such as the payments under the Supply Agreement as well as the City's agreements with Western, TANC and NCPA, which constitute operating expenses of the Electric System, are payable prior to any of the payments required to be made under the Installment Purchase Contract.

The agreements with NCPA and TANC are on a "take or pay" basis, which requires payments to be made whether or not the projects are operable, or whether output from such projects is suspended, interrupted or terminated. Certain of these agreements contain "step up" provisions obligating the City to pay a share of the obligations of a defaulting participant and granting the City a corresponding increased entitlement to electricity (generally, the City's "step-up" obligation is limited to 25 percent of the City's scheduled payments on such obligations).

The City's participation and share of debt service 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:

Table 7
City Share of
Outstanding Joint Powers Agencies Debt
As of June 30, 2006
(Dollar Amounts in Millions)

	Outstanding Debt	Roseville Participation	Roseville Share of Outstanding Debt
NCPA			
Geothermal Project	$ 126.5	7.9%	$ 10.0
Transmission Project	484.1	14.2	0.6
Hydroelectric Project	490.1	12.0	58.8
Combustion Turbine Project	18.5	13.6	2.5
Multiple Capital Facilities Project	65.8	36.5	24.0
TANC			
Bonds	385.6	2.3	8.9
Notes	34.6	2.3	0.8
TOTAL	$ 1,125.1		$ 105.5

Source: City of Roseville.

Projected Operating Results

Table 9 sets forth the projected revenues, expenses and debt service coverage of the Electric System for the current fiscal year and the next four fiscal years. The assumptions used in these projections are as follows:

Electric Rates. In June 2005, the City Council approved two five percent rate increases to be implemented over two years. The first rate increase took effect in July 2006. The second rate increase will take effect in July 2007. No other rate increases are assumed in the projections.

Local Economy. Residential and commercial vacancy rates will remain stable, and no major state or local economic recessions occur.

New Development. Development will continue consistent with the current Roseville General Plan and projections include a market driven land use scenario based upon growth estimates prepared by an independent firm. The City annexed property in October 2004 known as the West Roseville Specific Plan (WRSP) area. The WRSP area development is expected to add over 8,000 dwelling units within the next eight years. Another two annexations are expected to bring over 7,000 dwelling units and over 100 additional acres of commercial development.

Customer Demand. Major current customers will not reduce electricity load. Projected growth in electricity load demand ranges from two percent to four percent annually.

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Table 9
Projected Revenues, Expenses and Debt Service Coverage
(Dollars in Thousands)

	2006-07	2007-08	2008-09	2009-10	2010-11
Operating Revenues					
Charges for Services	$110,679	$121,355	$125,017	$128,522	$131,955
Sale of Wholesale Power	3,336	14,750	22,798	22,798	11,436
Transfer from Rate Stabilization Fund	-	-	3,000	4,000	4,000
Other [1]	94	335	340	345	350
Total Operating Revenues	$114,109	$136,440	$151,155	$155,665	$147,741
Operating Expenses					
Power Supply	75,644	81,279	97,171	96,310	89,527
Transmission	7,092	5,819	6,203	6,270	6,972
Distribution [2]	11,434	11,816	12,212	12,622	13,046
Public Benefits	4,500	4,635	4,774	4,917	5,065
Indirect Costs - City [3]	6,138	6,445	6,767	7,106	7,461
Administrative	3,054	3,146	3,240	3,337	3,437
Total Operating Expenses	107,862	113,140	130,367	130,561	125,508
Non-Operating Revenues					
Interest	2,923	3,200	3,400	3,500	3,500
Net Revenues Available for Debt Service	$9,170	$25,500	$24,187	$28,604	$25,7333
Debt Service					
1997 COP Payments	340	-	-	-	-
1999 COP Payments	586	584	584	-	-
2002 COP Payments	1,026	1,370	1,372	1,978	1,980
2004 COP Payments	2,274	2,269	2,269	2,267	2,268
2005 COP Payments	-	8,353	9,319	10,255	11,910
Total Debt Service	$4,226	$12,576	$13,544	$14,500	$16,158
Debt Service Coverage Ratio	2.17x	2.11x	1.79x	1.97x	1.59x
Rate Stabilization Fund Cash Balance	$78,000	$81,000	$81,000	$80,000	$78,000
Debt Service Coverage Ratio Including Rate Stabilization Fund Balance	20.63x	8.55x	7.77x	7.49x	6.42x

Source: City of Roseville

1 Represents miscellaneous revenue including reconnection fees and reimbursement from other City departments.
2 Includes traffic signal and streetlight maintenance costs.
3 Includes indirect costs and other transfers reimbursed to the City.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Because the City will purchase gas from the Issuer and use the gas to generate electrical power (see "INTRODUCTION"), factors affecting the electric utility industry may affect the financial condition of the City, the revenues to be received by the Issuer from the City and the transactions described herein.

Electric utilities are subject to state, federal and local scrutiny, within applicable law, with respect to the selling and licensing of facilities, safety and security, air and water quality, land use and other environmental factors.

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.

Energy Procurement and Efficiency Reporting. Senate Bill 1037, signed by the Governor on September 29, 2005, requires that each municipal electric utility, including the City, in procuring energy, first acquires all available energy efficiency and demand reduction 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 State Energy Resources Conservation and Development Commission (the "California Energy Commission" or 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 investor-owned utilities ("IOUs") adopt a Renewable Portfolio Standard ("RPS") to meet a minimum of 1 percent of retail energy sales needs each year from renewable resources and to meet a goal of 20 percent 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 percent 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 California 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.

Since the implementation of Senate Bill 1078, the California Public Utilities Commission (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 undertaken the development and establishment of the Western Renewable Energy Generation Information System, which will be used to ensure the integrity of renewable energy certificates and prevent the double counting of the certificates. The tracking system is anticipated to be operational in late 2007.

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, including 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 California Energy Commission for the funding of solar energy systems receiving ratepayer funded incentives, which would be established through a public process no later than January 1, 2008. 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 percent 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.

Greenhouse Gas Emissions. In its 2003 Integrated Energy Policy Report, the California Energy Commission recommended that utilities account for the cost of greenhouse gas emission reductions in utility procurement decisions. In December 2004, the CPUC also established an $8-$25/ton 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 greenhouse emissions.

On June 1, 2005, the Governor signed Executive Order S-3-05, which placed an emphasis on such efforts to reduce greenhouse gas emissions by establishing Statewide greenhouse gas 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 percent 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 percent biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

On September 27, 2006 the Governor signed into law Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"). The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas emission levels by 2020 and 80 percent below 1990 levels by 2050. In addition, the GWSA establishes a mandatory reporting program to the Air Resources Board ("ARB") for significant greenhouse gas 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 became law on September 29, 2006 and provides for a restriction on the negotiation of contracts with potential baseload fossil fuel electric generating resources that exceed the rate of emissions for greenhouse gases for existing combined-cycle natural gas baseload generation and seeks to allow the CEC to establish a regulatory framework necessary to enforce the

greenhouse gas emission performance standard for publicly-owned utilities, such as the City. Meanwhile, Assembly Bill 1925 became law on September 26, 2006 and provides for 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 into law, which authorizes the Wildlife Conservation Board (the "WCB") to take into account the potential of forestlands to beneficially reduce or sequester greenhouse gas 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 greenhouse gas emissions.

Certain Federal Issues

The U.S. Congress has been attempting to implement a national energy policy since 2002. As noted, on August 8, 2005, President Bush signed into law the 2005 Energy Policy Act. From the electricity standpoint, the 2005 Energy Policy Act: (a) authorizes (but does not obligate) FERC to require "unregulated transmitting utilities" that were formerly exempt from regulation under sections 205 and 206 of the Federal Power Act (the "FPA") to provide open access to their transmission systems and to comply with certain rate change provisions of section 205 of the FPA; (b) authorizes FERC to order refunds for certain short-term wholesale sales made by state and municipal power entities if such sales violate FERC-approved tariffs or FERC rules: (c) allows load serving entities holding certain firm transmission rights to continue to use those rights to serve their customers; (d) provides that an "electric reliability organization" ("ERO") will develop reliability standards for operation of the transmission grid subject to FERC approval, that compliance with such standards will be mandatory and enforceable by the ERO and FERC, and that the ERO may delegate its authority to regional entities subject to FERC approval; (e) adds to the FPA a prohibition on market manipulation and submission of false information, and expands civil and criminal penalties for violation of the FPA; (f) authorizes FERC to issue construction permits for transmission projects located in "national interest electric transmission corridors" (to be designated by the Department of Energy) in circumstances where the applicable state or regional siting agency does not timely act on a project or imposes unreasonable conditions; (g) eliminates certain ownership restrictions on electric utilities regarding "qualifying facilities" and relaxes the utility purchase obligation applicable to sales output of these qualifying facilities if certain market condition findings are made by FERC: (h) requires state utility regulatory commissions and "non-regulated electric utilities" to consider adopting certain standards on net metering, fuel diversity, fossil fuel plant diversity, certain metering and time-based rate schedules and demand response, and interconnection with distributed generation facilities; (i) repeals the Public Utility Holding Company Act, effective six months after enactment of the 2005 Energy Policy Act; but gives FERC limited "books and records" regulatory oversight of public utility holding companies, (j) increases FERC's authority to review mergers of public utility companies; and (k) directs FERC to establish transmission investment incentives in transmission rate structures for public utilities.

Impact of Developments on the City

The foregoing discussions of certain provisions of State Legislation and the 2005 Energy Policy Act do not purport to be comprehensive discussions. Information on those laws is available from many sources in the public domain. Existing and future owners of the Bonds should obtain and review such information. Neither the Issuer nor the City is able to predict with great certainty what effects such changes in the electric utility industry will have on the business operations and financial condition of the City's electric system.

APPENDIX B — AUDITED FINANCIAL STATEMENTS OF THE CITY OF ROSEVILLE, CALIFORNIA FOR YEAR ENDED JUNE 30, 2006

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

Honorable Mayor and City Council
City of Roseville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, California (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for 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 audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, California as of June 30, 2006 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedure applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maze and Associates

November 22, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Roseville's financial statements a narrative overview and analysis of the financial activities of the City of Roseville for the fiscal year ended June 30, 2006. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Even with the recent slowdown in the housing market, the City remained strong economically, as General Fund tax revenues increased, business activities were healthy and growing, and revenues for capital expenditures grew at the pace of development. The City's financial highlights are presented below:

FISCAL YEAR 2006 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2006 include the following:

Entity-wide:

- The City's total net assets were $2.1 billion as of June 30, 2006. Of this total, $923.3 million were Governmental assets and $1.1 billion were Business-type assets.
- Governmental revenues include program revenues of $147.5 million and general revenues and transfers of $118.3 million for a total of $265.8 million.
- Governmental expenses were $135.9 million.
- Business-type program revenues, interest revenue and miscellaneous revenues were $244.6 million while Business-type expenses and transfers were $191.9 million.

Fund Level:

- Governmental Fund balances increased to $218.2 million in fiscal year 2006, up $33.5 million from the prior year.
- Governmental Fund revenues increased to $239.7 million in 2006, up $98.9 million from the prior year. This was primarily due to an increase of tax revenues of $6.9 million, $84.8 million in contributions of bond proceeds for Community Facility Districts and other developer contributions, $4.5 million in charges for services, and use of money and property of $2.9 million. Governmental Fund expenditures increased to $229.6 million in fiscal year 2006, up $67 million from the prior year. This increase was primarily due to increases of capital outlay of $49.6 million, public safety of $7.2 million, $4.6 million in public works, and $4.7 million in general government.
- Other Financing Sources provided a net of $23.4 million in fiscal year 2006, up $6.1 million from 2005 due to $3.5 million in proceeds from property sales in 2006 and an increase of proceeds from capital leases of $2.1 million.

General Fund:

- General Fund revenues of $100.8 million were $12.4 million higher than the prior year, with the largest increases in taxes and charges for services.
- General Fund expenditures of $109.9 million represented an increase of $19.9 million over the prior year. The largest increases were in general government, public safety, and capital outlay.
- Other Financing Sources showed $16.1 million, which was slightly decreased from 2005.
- The General Fund balance of $64.3 million as of June 30, 2006 is up from fiscal year 2005's fund balance of $57.2 million.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is divided into six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this section),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Required Supplemental Information,
5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-wide Financial Statements provide an overview of the City's activities, and are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full-accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the City's revenues and all of its expenses, also on the full-accrual basis, with the emphasis on measuring net revenues or expenses of each the City's major functions. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into either Government Activities or Business-type Activities, as explained below. The amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities for the City.

The Fund Financial Statements report the City's operations in more detail than the entity-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Fiduciary Statements provide financial information about the activities of the Community Facilities Districts and certain other entities, for which the City acts solely as agent. The Fiduciary Statements provide information about the cash balances and activities of these Districts and other entities. These statements are separate, and their balances are excluded, from the City's basic financial statements.

The Entity-wide Financial Statements

Entity-wide financial statements, prepared on the accrual basis, measure the flow of all economic resources of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

- ***Governmental Activities***—All of the City's basic services are considered to be governmental activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as user fees and charges.

  The City's governmental activities also include the activities of three separate legal entities, the Redevelopment Agency of the City of Roseville, the Roseville Finance Authority, and the City of Roseville Housing Authority. The City is financially accountable for these entities.

- ***Business-type Activities***—The City's enterprise activities of electric, water, wastewater, solid waste, golf course, local transportation, and school-age child care are reported in this area. Unlike governmental activities, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

In the City's case, the Redevelopment Agency of the City of Roseville Fund and the Community Facilities District Projects Fund are the only Major Governmental Funds in addition to the General Fund.

All seven of the City's Enterprise Funds are reported as Major Funds.

Fund Financial Statements include governmental and proprietary funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis. This means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund Financial Statements are prepared on the full-accrual basis, and include all of their assets and liabilities, current and long-term.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the Entity-wide Financial Statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and the Redevelopment Agency of the City of Roseville Fund, as required by GASB 34.

Fiduciary Statements

The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds' Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1, 2, and 3 focus on the City's Governmental Statement of Net Assets and Statement of Activities, while Tables 4, 5, and 6 focus on the City's Business-type Statement of Net Assets and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Assets at June 30
(in Millions)

	2006	2005
Cash and Investments	$298.5	$255.2
Other Assets	36.7	31.9
Capital Assets	688.4	600.4
Total Assets	**1,023.6**	**887.5**
Long-Term Debt Outstanding	33.3	32.0
Other Liabilities	67.0	62.2
Total Liabilities	**100.3**	**94.2**
Net Assets:		
Invested in Capital Assets, Net of Debt	664.1	579.8
Restricted	149.8	124.5
Unrestricted	109.4	89.0
Total Net Assets	**$923.3**	**$793.3**

The City's governmental net assets amounted to $923.3 million as of June 30, 2006, an increase of $130 million over 2005. This increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net assets as of June 30, 2006 comprised the following:

- Cash and investments comprised $246.8 million in the city treasury and $51.7 million of restricted cash and investments. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 3 to the financial statements.

- Receivables comprised $16.9 million of which are current, along with deferred receivables of $2.1 million and notes receivable of $10.3 million that are due over longer periods of time, as explained in Notes 5 and 6 to the financial statements.

- Capital assets of $688.4 million, net of depreciation charges, includes all of the City's infrastructure as well as other capital assets used in governmental activities, as discussed in Note 8.

- Current liabilities—including accounts payable, claims, and other amounts due currently—totaled $51.0 million.

- Accrued compensated absence liabilities payable to employees of $7.6 million, as explained in Note 1G to the financial statements.

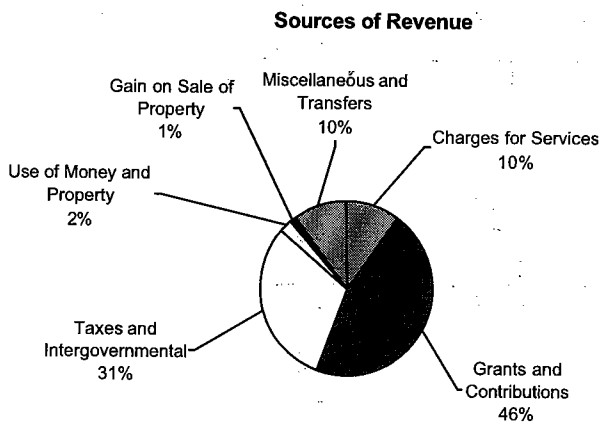
- Long-term debt of $33.3 million, of which $32.1 million is due in future years and $1.2 million is due currently, as detailed in Note 9.

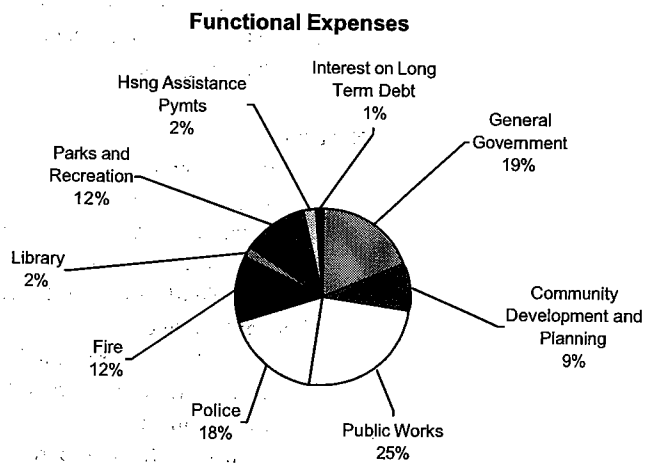
- Net assets invested in capital assets net of related debt of $664.1 million, representing the City's investment in infrastructure and other capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.

- Restricted net assets totaling $149.8 million, only may be used to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds cannot be changed by the City.

- Unrestricted net assets is that part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had $109.4 million of unrestricted net assets as of June 30, 2006. While these assets are technically unrestricted, most of these assets are designated for a specific use.

Fiscal Year 2006 Government Activities





As the Sources of Revenue Chart above shows, $82.2 million, or 31% of the City's fiscal year 2006 governmental activities revenue, came from taxes and unrestricted intergovernmental revenues (motor vehicle-in-lieu), while $121.2 million or 46% came from grants and contributions, $26.3 million, or 10%, came from charges for services, and the remainder came from a variety of sources, as shown above.

The Functional Expenses Chart above includes only current year expenses; it does not include capital outlays, which are added to the City's capital assets. As the Chart shows, general government is $25.4 million, or 19% of total government expenses, community development and planning is $11.9 million, or 9%, public works is $33.5 million, or 25%, police is $24.5 million, or 18%, fire is $16.4 million, or 12%, parks and recreation is $16.1 million, or 12%, and other governmental programs and functions are the remaining 5%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets summarized below.

Table 2
Changes in Governmental Net Assets
June 30
(in Millions)

	Governmental Activities	
	2006	2005
Expenses		
General Government	$25.4	$22.4
Community Development and Planning	11.9	10.1
Public Works	33.5	39.4
Police	24.5	22.8
Fire	16.4	15.2
Library	3.2	3.0
Parks and Recreation	16.1	14.0
Payments Under Developer Agreements	0.0	3.1
Housing Assistance Payments	3.0	3.0
Interest on Long Term Debt	1.9	1.8
Total Expenses	**135.9**	**134.8**
Revenues		
Program Revenues:		
Charges for Services	26.3	21.5
Operating Grants and Contributions	7.7	9.5
Capital Grants and Contributions	113.5	41.1
Total Program Revenues	**147.5**	**72.1**
General Revenues:		
Taxes/Intergovernmental	82.2	76.0
Use of Money and Property	8.1	5.6
Miscellaneous	1.7	0.7
Gain on Sale of Property	2.7	
Total General Revenues	**94.7**	**82.3**
Total Revenues	**242.2**	**154.4**
Changes in Net Assets before Transfers	**106.3**	**19.6**
Transfers	23.6	17.3
Change in Net Assets	**$129.9**	**$36.9**

As the Sources of Revenue Chart and **Table 2** above show, $147.5 million, or 60.9% of the City's fiscal year 2006 governmental revenue, came from program revenues and $94.7 million, or 39.1%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of $26.3 million that include permit revenues, fees, and charges used to fund expenses incurred in providing services; $7.7 million of operating grants and contributions which include gas tax revenues, housing, and police grants; and capital grants and contributions of $113.5 million that consist mainly of street project grants, developer impact fees restricted to capital outlay and contributions from community facilities districts to be used to build infrastructure in those districts.

General Revenues-Taxes/Intergovernmental showed an increase of $6.2 million. The majority of this increase was due to property and sales taxes. General revenues are not allocable to programs and are used to pay the net cost of governmental programs.

Table 3 presents the net (expense) or revenue of each of the City's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

Table 3
Governmental Activities
June 30
(in Millions)

	Net (Expense)/Revenues from Services	
	2006	2005
General Government	($19.9)	($18.7)
Community Development and Planning	(6.1)	(4.6)
Public Works	(14.7)	(6.8)
Police	(21.3)	(19.7)
Fire	(13.6)	(11.7)
Library	(2.9)	(2.7)
Parks and Recreation	(4.6)	(2.2)
Community Facilities Districts	96.3	8.2
Payments Under Developer Agreements	0.0	(3.1)
Housing Assistance Payments	0.4	0.4
Interest on Long Term Debt	(1.9)	(1.8)
Totals	**$11.7**	**($62.7)**

Business-type Activities

The Statement of Net Assets and Statement of Activities present a summary of the City's Business-type Activities that are composed of the City's enterprise funds.

Table 4
Business-Type Net Assets at June 30
(in Millions)

	2006	2005
Cash and Investments	$308.5	$383.5
Other Assets	158.2	156.5
Capital Assets	1,156.4	1,008.5
Total Assets	**1,623.1**	**1,548.5**
Long-Term Debt Outstanding	390.8	399.9
Other Liabilities	85.3	54.4
Total Liabilities	**476.1**	**454.3**
Net Assets:		
Invested in Capital Assets, Net of Debt	838.4	767.6
Restricted	28.2	31.0
Unrestricted	280.4	295.6
Total Net Assets	**$1,147.0**	**$1,094.2**

The net assets of business-type activities increased to $1.147 billion in fiscal year 2006, an increase of $53 million. Cash and investments decreased $75 million, due to increased expenditures for capital projects; and correspondingly, capital assets have increased $147.9 million. Other liabilities increased $30.9 million, which includes increases of $14.8 million for deposits, $10.1 million in unearned revenue, and $6.2 million in accounts payable.

Table 5
Changes in Business-Type Net Assets
June 30
(in Millions)

	Business-Type Activities	
	2006	2005
Expenses		
Electric Fund	$97.1	$93.1
Water Fund	18.5	16.7
Wastewater Fund	27.2	23.9
Solid Waste Fund	14.2	12.7
Golf Course Fund	2.5	2.5
Local Transportation Fund	4.4	4.1
School-Age Child Care Fund	4.5	4.2
Total Expenses	**168.4**	**157.2**
Revenues		
Program Revenues		
Charges for Services	161.0	151.0
Operating Grants and Contributions	2.3	7.0
Capital Grants and Contributions	68.9	49.8
Total Program Revenues	**232.2**	**207.8**
General Revenues		
Use of Property and Money	10.6	4.5
Total Revenues	**242.8**	**212.3**
Change in Net Assets before Special Items and Transfers	**74.4**	**55.1**
Provision for Disputed SCS Charges	0.0	0.4
Miscellaneous revenues	1.8	
Transfers	(23.6)	(17.3)
Changes in Net Assets	**$52.6**	**$38.2**

Business-type program revenues, interest revenue, and miscellaneous revenues were $244.6 million while Business-type expenses and transfers were $192 million 2006. Each program is discussed in the Proprietary Funds section below.

Table 6 summarizes the financial activity of the business-type programs, the detail of which is discussed under the Proprietary Funds section below.

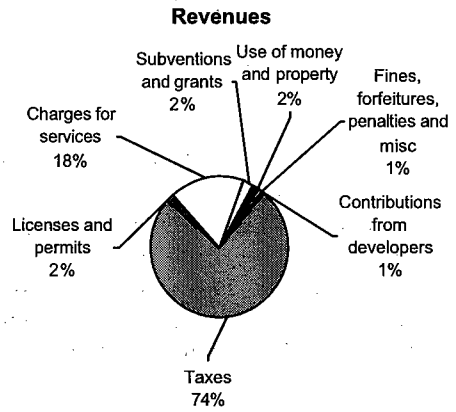
Table 6
Changes in Business-Type Net Assets
(in Millions)

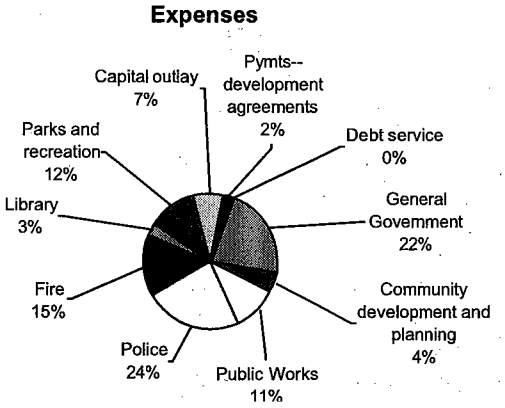
	Net (Expense)/Revenues From Services	
	2006	2005
Electric Fund	$22.1	$13.3
Water Fund	27.0	18.6
Wastewater Fund	13.6	13.3
Solid Waste Fund	3.3	2.7
Golf Course Fund	0.3	0.1
Local Transportation Fund	(3.1)	2.4
School-Age Child Care Fund	0.6	0.2
Totals	**$63.8**	**$50.6**

Analyses of Major Governmental Funds

General Fund

Fiscal Year 2006 General Fund Activity





General Fund revenues increased $12.4 million this fiscal year due primarily to increases in taxes, charges for services, and proceeds from the sale of property. Actual revenues were less than budgeted amounts by $2.2 million, with licenses and permits and charges for services coming in under budget, as new home construction slowed down, but taxes came in greater than targeted. Taxes increased in both property and sales taxes ($4.3 million and $1.7 million, respectively). Property taxes' assessed valuations rose 16.9%, driven by prior years' construction, which are now on the tax rolls. Sales tax revenues increased across the board, as sales increases were reported in all major sectors resulting in part from continued addition of new retail stores surrounding the Galleria regional mall and the Highway 65 corridor.

General Fund expenditures were $109.9 million, an increase of $19.9 million from the prior year. Expenditures were $31 million less than budget however, as most departments expended less than budgeted. The original budget was increased by $5.2 million from encumbrances carried over from fiscal year 2005. The sources of these budget savings included planning, public works, and central services which had delays in professional services; police, public works, and parks and recreation which had savings in salaries with salaries being budgeted at the top step; vacancies; and projects anticipated for 2006 that have been carried over to fiscal year 2007.

Other financing sources and uses reported net inflows of $16.1 million in fiscal year 2006, which is comparable to the prior year

As of June 30, 2006, the General Fund's fund balance totaled $64.3 million, including $16.7 million reserved almost entirely for encumbrances and advances to other funds, $12.1 million designated for economic reserve and capital improvements and $35.5 million in unreserved, undesignated balances. Only the unreserved portion of fund balance represents available liquid resources, since the reserved portion is represented by non-cash assets or by open purchase orders. The designated portion of fund balance has been set aside by City Council, which may alter or reverse its decisions with respect to designated fund balances at any time.

Redevelopment Agency of the City of Roseville

This Fund accounts for the Redevelopment (RDA) activity including capital projects in the downtown redevelopment area funded by tax allocation bonds. The majority of the bond proceeds from the 2003 tax allocation bonds remain unspent. In addition the RDA owes other City funds $13.5 million, which will be repaid from future tax increment revenues.

Community Facilities District Projects

This Fund accounts for capital expenditures on community facilities districts in the City. The purpose of these districts is to finance the construction of capital improvements within the boundaries of each district, through the contribution of Mello-Roos bond proceeds. The improvements are contributed to the City, which in turn acquires and pays for these facilities from the developers who actually construct the improvements. In fiscal year 2006, the Fund received $92.6 million in such contributions from property-owners and developers, and expended $66.3 million in capital outlay on facilities in community facilities districts. The largest projects underway in fiscal year 2006 were improvements to the West Roseville area.

Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

Proprietary Funds

Electric Fund

Net assets of the Electric Fund increased $20.1 million in fiscal year 2006 to a total of $275.2 million. Operating income for fiscal year 2006 is $12.2 million, an increase of $3.4 million from 2005. Electric retail sales increased by $9.5 million in 2006, however, sale of wholesale power decreased by $5.7 million, due to the termination of a swap agreement from 2005. Rates are anticipated to be increased in fiscal years 2007 and 2008.

Of the fund's Net Assets of $275.2 million, $156.5 million was invested in capital assets, $17.3 million was restricted and $101.4 million was unrestricted.

Water Fund

Net assets of the Water Fund increased $25.8 million in fiscal year 2006. There continued to be an operating loss; this year the loss was $3.7 million. Operating revenues increased only slightly to a total of $13.5 million in fiscal year 2006, while expenses increased $1.5 million to a total of $17.1 million. The increased operating expenses were primarily due to fully implementing new programs such as water conservation. Rates are anticipated to be increased in fiscal years 2007 and 2008. However, capital connection fees were $9.4 million (a decrease of $0.9 million, as growth has stabilized), and contributions from developers were $20.7 million in fiscal year 2006, an increase of $9.6 million, while net transfers out were $3.1 million.

As of June 30, 2006, the Fund's Net Assets were $371.3 million, of which $316.1 million was invested in capital assets, $2.6 million was restricted for debt service and $52.5 million was unrestricted as to use.

Wastewater Fund

Operating revenues increased in fiscal year 2006 $2.7 million to a total of $19 million. Operating expenses increased to $23.7 million, up $3 million. The net result was an operating loss of $4.7 million, of which $9.3 million was depreciation. Rates are anticipated to be increased in fiscal years 2007 and 2008. Other items that affected net assets were: connection fees of $5.7 million (down $1.1 million as growth has stabilized); capital contributions of $11.8 million and $1.5 million, respectively, from developers and South Placer Wastewater Authority; and net transfers out of $4.1 million. The total increase to net assets was $9.7 million for fiscal year 2006 to a total of $475.7 million. As of June 30, 2006, of the Fund's Net Assets, $345 million was invested in capital assets, and $130.7 million was unrestricted.

Solid Waste Fund

Revenues increased $2.4 million to $17.6 million and expenses increased $1.5 million to $14.2 million in fiscal year 2006. As a result, net operating income increased by $0.8 million to $3.3 million. Rates are anticipated to be increased in fiscal years 2007 and 2008. Net transfers out were $3.9 million. The total net assets from 2005 were $2.4 and with a slight decrease of $0.3 million; the ending balance for 2006 was $2.1 million.

Golf Course Fund

Revenues and expenses remained relatively flat in fiscal year 2006 at $2.7 million and $2.2 million, respectively. As a result, the Fund's net assets were stable at $8.3 million. The Fund is financed in part by advances from other City funds; as a result, it has a deficit in its unrestricted net assets, partially offsetting the $10.0 million it has invested in capital assets, net of the related debt.

Local Transportation Fund

Net assets of the Fund decreased $3.1 million in fiscal year 2006 to a total of $13.5 million. There was a $3.8 million operating loss in fiscal year 2006, and most of the subsidies were deferred for future projects. As of June 30, 2006, the Fund's Net Assets were $13.5 million, of which $5.9 million was invested in capital assets and $7.6 million was restricted for use in local transportation.

School-Age Child Care Fund

Net assets of the Fund remained relatively flat with a slight increase of $0.3 million in fiscal year 2006 to a total of $0.88 million. Since both revenues and expenses were up $0.4 million, the decline in net assets was due in part to additional transfers out for indirect costs. As of June 30, 2006, the Fund's Net Assets were $0.88 million. $0.96 million were invested in capital assets, which leaves a negative $0.08 million in unrestricted net assets.

CAPITAL ASSETS

In fiscal year 2002, the City started recording the cost of its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 7 below:

Table 7
Capital Assets at Year End
(in Millions)

	Balance at June 30, 2006	Balance at June 30, 2005
Governmental Activities		
Land	$ 22.6	$ 22.1
Streets (modified)	166.9	159.3
Parks (modified)	60.3	54.4
Landscaping (modified)	29.1	24.6
Construction in Progress	126.8	63.4
Buildings	79.9	79.9
Improvements	4.7	4.2
Equipment	52.6	43.9
Bike Paths	7.2	7.2
Bridges	46.6	45.6
Culverts	18.9	18.9
Curb, Gutter, Sidewalk, & Median Curbs	120.7	118.2
Drain Inlets	18.9	18.2
Flood Control Improvements	17.3	15.5
Soundwall	21.4	18.3
Stormdrains	51.3	49.4
Traffic Signals	18.9	18.6
Less: Accumulated Depreciation	(175.7)	(161.3)
Governmental Activity Capital Assets, Net	**$688.4**	**$600.4**

	Balance at June 30, 2006	Balance at June 30, 2005
Business-Type Activities		
Land	$ 16.1	$ 16.1
Landscaping (modified)	0.6	0.6
Construction in Progress	163.4	70.1
Buildings	12.0	11.8
Improvements	11.0	10.7
Machinery and Equipment	16.2	15.2
Bike Paths	1.1	1.1
Plant and Substations	283.3	270.9
Distribution	846.5	785.2
Less: Accumulated Depreciation	(193.8)	(173.2)
Business-Type Activity Capital Assets, Net	**$1,156.4**	**$1,008.5**

Detail on capital assets, current year additions and construction in progress can be found in Note 8.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB 34, except for streets, parks and landscaping, which are reported using the Modified Approach allowed under GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 8 to the financial statements. The Modified Approach requires the City to employ an asset management system that maintains a current inventory of these assets, estimates annual costs to maintain them, and assesses the condition of the assets in a replicable way.

The City uses a computerized Pavement Management System to track the condition levels of each of the street sections. The City has adopted a policy of maintaining arterial and collector roadways at an average Pavement Quality Index (PQI) of 7.5 and residential roadways at an average PQI of 6.5, which means that, on average, the City's streets must be maintained at no less than 70% of pavement in perfect condition.

At June 30, 2006, the City's streets averaged 7.5 PQI for arterial and collector roadways and 7.9 PQI for residential roadways. The City expended $7.2 million on preservation of its streets in fiscal year 2006, compared to the budgeted amount of $7.8, and plans to spend $5.5 million in fiscal year 2007.

The City uses a computerized Grounds Management System to track the condition levels of each of the parks and landscaping. The City has adopted a policy of maintaining parks and landscaping at an average Ground Management Index (GMI) of Level 2, which means that, on average, the City's parks and landscaping must be maintained at no less than 83% of parks and landscaping maintained at a state-of-the-art level.

At June 30, 2006, the City's parks and landscaping averaged 2 GMI. The City expended $4.3 million on preservation of its parks and landscaping in fiscal year 2006, compared to the $4.6 budgeted, and plans to spend $5.1 million in fiscal year 2007.

DEBT ADMINISTRATION

The City made all scheduled repayments of existing debt. Each of the City's debt issues is discussed in detail in Note 9 to the financial statements. As of June 30, the City's debt comprised:

Table 8
Outstanding Debt
(in Millions)

	Balance at June 30, 2006	Balance at June 30, 2005
Governmental Activity Debt:		
Certificates of Participation:		
2003 Public Facilities Bond, 2.0%-5.0%, due 8/1/25	$17.11	$17.71
Tax Allocation Bonds		
2002 Roseville Redevelopment Project 3%-5.14% due 9/1/33	13.74	13.96
Installment Purchase Obligations		
Equipment	2.4	0.31
Other Long Term Obligations:		
Foothill Blvd. Extension, due 4/1/07	nil	nil
Total Governmental Activity Debt:	**$33.3**	**$31.98**

	Balance at June 30, 2006	Balance at June 30, 2005
Business-type Activity Debt:		
Certificates of Participation:		
1997 Electric System Revenue, 3,6%-5.25%, due 2/1/17	$ 0.33	$ 0.63
1999 Electric System Revenue, 4.0%-5.5%, due 2/1/24	1.63	2.14
2002 Electric System Revenue, Variable Rate, due 2/1/24	25.62	30.98
Less deferred amount on refunding	(3.09)	(3.26)
2004 Electric System Revenue, 3.0-5.25%, due 2/1/34	39.94	39.94
2005 Electric System Revenue, Series A, 3.0-5.0%, due 2/1/23	52.90	52.90
2005 Electric System Revenue, Series B, Variable Rate, due 2/1/35	90.00	90.00
2005 Electric System Revenue, Series C, Variable Rate, due 2/1/35	60.00	60.00
2003 Golf Course Project, 2.0-5.0%, due 8/1/23	7.63	7.94
1997 Water Utility Revenue, 3.9% -5.2%, due 12/1/18	24.74	26.08
Total Certificates of Participation	**299.70**	**307.35**
Revenue Bonds:		
2000 Wastewater Revenue Bonds, Series A, 3.8% -5.5%, due 11/1/27	7.59	92
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	37.92	37.92
2003 Wastewater Refunding Revenue Bonds, variable rate, due 11/1/27	51.01	51.35
Less deferred amount on refunding	(5.54)	(5.80)
Total Revenue Bonds	**90.98**	**92.39**
Other Long Term Obligations:		
Notes, 5%, due 10/1/17	0.17	0.18
Total Business-type Activity Debt:	**$390.85**	**$399.92**

COMMUNITY FACILITIES/ASSESSMENT DISTRICTS DEBT

Community facilities districts and assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts. As of June 30, 2006, a total of $331.4 million in community facilities district and assessment district debt was outstanding, representing fifteen issues by community facilities districts and two issues by assessment districts. This debt is secured only by special tax liens and assessments on the real property in the district issuing the debt and is not the City's responsibility; however, the City does act as the agent in the collection and remittance of special taxes and assessments for these Districts. Further detail on this debt may be found in Note 10 to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Roseville at 311 Vernon Street, Roseville, California, 95678.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF ROSEVILLE

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The purpose of the Statement of Net Assets and the Statement of Activities is to summarize the entire City's financial activities and financial position.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets and summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities and any portion of the Internal Service Fund balances that service Enterprise Funds. Fiduciary activity is excluded.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

Both these Statements include the financial activities of the City, the Redevelopment Agency of the City of Roseville, the Roseville Finance Authority, and the City of Roseville Housing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities.

CITY OF ROSEVILLE
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments in City Treasury (Note 3)	$246,807,027	$159,287,269	$406,094,296
Restricted cash and investments with fiscal agents (Note 3)	51,692,894	149,186,807	200,879,701
Receivables:			
Taxes	1,381,329	32,934	1,414,263
Accounts	4,610,641	21,165,317	25,775,958
Accrued interest	2,114,757	1,500,419	3,615,176
Due from other government agencies	8,787,876	1,754,764	10,542,640
Internal balances (Note 4D)	4,215,249	(4,215,249)	
Prepaids	757,932		757,932
Deferred receivables (Note 6)	2,124,839	684,266	2,809,105
Notes receivable (Note 5)	10,319,915		10,319,915
Notes receivable from NCPA (Note 15B)		192,879	192,879
Inventories (Note 1I)	1,375,688	7,873,983	9,249,671
Land held for redevelopment (Note 7D)	1,002,290		1,002,290
Prepaid purchased electricity (Note 14)		4,584,532	4,584,532
Unamortized bond origination costs		1,416,235	1,416,235
Investment in NCPA reserves (Note 15)		12,008,493	12,008,493
Investment in SPWA reserves (Note 16)		111,170,459	111,170,459
Capital assets (Note 8):			
Land and construction in progress	405,667,898	180,087,255	585,755,153
Capital assets being depreciated, net	282,726,110	976,333,504	1,259,059,614
Total assets	1,023,584,445	1,623,063,867	2,646,648,312
LIABILITIES			
Accounts payable	33,128,264	20,825,023	53,953,287
Accrued liabilities	2,632,887	3,470,115	6,103,002
Due to other governments	6,919,772	1,026,740	7,946,512
Deposits	6,665,778	37,990,156	44,655,934
Unearned revenues	1,627,451	13,035,472	14,662,923
Deferred liabilities		125,242	125,242
Landfill closure and post closure liability (Note 17)		3,678,093	3,678,093
Compensated absences (Note 1G):			
Due within one year	274,852	2,609,247	2,884,099
Due in more than one year	7,320,098	2,504,737	9,824,835
Self-insurance claims payable and litigation settlement (Note 13)	8,470,000		8,470,000
Long term liabilities (Note 9):			
Due within one year	1,149,638	4,872,793	6,022,431
Due in more than one year	32,130,571	385,974,107	418,104,678
Total liabilities	100,319,311	476,111,725	576,431,036
NET ASSETS (Note 11)			
Invested in capital assets, net of related debt	664,131,414	838,373,690	1,502,505,104
Restricted for:			
Capital projects:			
Expendable	127,280,639		127,280,639
Nonexpendable	16,425,999		16,425,999
Debt service	1,345,398	20,555,663	21,901,061
Community development projects	4,686,005		4,686,005
Local transportation		7,623,283	7,623,283
Total restricted net assets	149,738,041	28,178,946	177,916,987
Unrestricted net assets	109,395,679	280,399,506	389,795,185
Total net assets	$923,265,134	$1,146,952,142	$2,070,217,276

See accompanying notes to financial statements

CITY OF ROSEVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$25,437,535	$3,364,921	$120,778	$2,032,357	($19,919,479)		($19,919,479)
Community development and planning	11,893,312	4,312,464	1,077,687	397,946	(6,105,215)		(6,105,215)
Public works	33,498,385	7,959,770	103,747	10,728,483	(14,706,385)		(14,706,385)
Police	24,500,396	1,900,144	1,251,680		(21,348,572)		(21,348,572)
Fire	16,435,774	1,253,881	499,198	1,100,053	(13,582,642)		(13,582,642)
Library	3,156,087	188,738	110,374		(2,856,975)		(2,856,975)
Parks and recreation	16,052,655	7,315,217	1,127,288	2,989,114	(4,621,036)		(4,621,036)
Community facilities districts				96,283,453	96,283,453		96,283,453
Housing assistance payments	2,974,236		3,426,751		452,515		452,515
Interest on long term debt	1,933,654				(1,933,654)		(1,933,654)
Total Governmental Activities	135,882,034	26,295,135	7,717,503	113,531,406	11,662,010		11,662,010
Business-type Activities:							
Electric	97,101,941	102,772,594		16,419,999		$22,090,652	22,090,652
Water	18,510,040	13,450,264	2,019,853	30,055,261		27,015,338	27,015,338
Wastewater	27,207,717	19,025,742		21,786,854		13,604,879	13,604,879
Solid Waste	14,220,731	17,558,492	26,489			3,364,250	3,364,250
Golf Course	2,479,378	2,747,851				268,473	268,473
Local Transportation	4,415,411	601,087	32,003	652,854		(3,129,467)	(3,129,467)
School-age Child Care	4,430,801	4,833,884	220,844			623,927	623,927
Total Business-type Activities	168,366,019	160,989,914	2,299,189	68,914,968		63,838,052	63,838,052
Total	$304,248,053	$187,285,049	$10,016,692	$182,446,374	11,662,010	63,838,052	75,500,062
General revenues:							
Taxes:							
Property taxes					30,867,256		30,867,256
Sales taxes					42,642,034		42,642,034
Franchise taxes					1,267,707		1,267,707
Motor fuel taxes					3,116,638		3,116,638
Other taxes					3,630,534		3,630,534
Intergovernmental, unrestricted:							
Motor vehicle in lieu					710,510		710,510
Use of money and property					8,077,599	10,559,581	18,637,180
Miscellaneous revenues					1,680,851	1,825,199	3,506,050
Gain on sales of property					2,703,738		2,703,738
Transfers (Note 4)					23,582,576	(23,582,576)	
Total general revenues and transfers					118,279,443	(11,197,796)	107,081,647
Change in Net Assets					129,941,453	52,640,256	182,581,709
Net Assets-Beginning					793,323,681	1,094,311,886	1,887,635,567
Net assets-Ending					$923,265,134	$1,146,952,142	$2,070,217,276

See accompanying notes to financial statements

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MAJOR GOVERNMENTAL FUNDS

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FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City in fiscal 2006. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

REDEVELOPMENT AGENCY

The Redevelopment Agency Fund accounts for all activities of the Agency, including 1) tax increment allocations set aside for the purpose of increasing or improving housing for low-income residents; 2) the accumulation of property taxes for payment of interest and principal on the Redevelopment Agency tax allocation bonds issued in 2003; 3) capital projects connected with downtown redevelopment funded by property tax increment revenues.

COMMUNITY FACILITIES DISTRICT PROJECTS FUND

This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

CITY OF ROSEVILLE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General	Redevelopment Agency of the City of Roseville	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments in City Treasury (Note 3)	$52,082,481	$7,046,498	$13,509,577	$120,624,401	$193,262,957
Restricted cash and investments with fiscal agents (Note 3)		9,993,292	38,067,255	3,592,347	51,652,894
Receivables:					
Taxes	1,381,329				1,381,329
Accounts	3,961,654			640,679	4,602,333
Accrued interest	1,689,090	79,295	215,694	1,430,544	3,414,623
Due from other government agencies	6,729,965	25,256		2,011,171	8,766,392
Due from other funds (Note 4B)	1,297,351			50,000	1,347,351
Advances to other funds (Note 4C)	8,595,536			4,100,000	12,695,536
Prepaids	137,408				137,408
Deferred receivables (Note 6)				2,124,839	2,124,839
Notes receivable (Note 5)	104,846	1,923,079		8,291,990	10,319,915
Inventories (Note 1I)	498,894				498,894
Land held for redevelopment		1,002,290			1,002,290
Total Assets	$76,478,554	$20,069,710	$51,792,526	$142,865,971	$291,206,761
LIABILITIES					
Accounts payable	$3,210,488	$831,375	$23,423,446	$5,004,477	$32,469,786
Accrued liabilities	1,415,420	520,270		147,865	2,083,555
Due to other funds (Note 4B)		800,000		336,740	1,136,740
Due to other government agencies	19,035			6,900,737	6,919,772
Compensated absences (Note 1G)	126,909				126,909
Advances from other funds (Note 4C)		13,524,737		212,500	13,737,237
Deposits	6,065,778			600,000	6,665,778
Deferred revenue	1,328,486	1,923,079		3,986,105	7,237,670
Deferred liabilities		2,368,988		272,255	2,641,243
Total Liabilities	12,166,116	19,968,449	23,423,446	17,460,679	73,018,690
FUND BALANCES (Note 11)					
Reserved for:					
Advances	8,595,536			4,100,000	12,695,536
Inventories	498,894				498,894
Encumbrances	7,333,064			6,869,617	14,202,681
Capital projects			28,369,080		28,369,080
Deferred receivables and notes receivable	104,846			26,992	131,838
Prepaids	137,408				137,408
Low and moderate income housing		2,443,917			2,443,917
Debt service		10,039,564		1,345,398	11,384,962
Unreserved:					
Designated for economic reserve	11,025,100				11,025,100
Reported in Capital Projects Funds:					
Designated for carryover of capital improvement projects	1,085,289			19,807,821	20,893,110
Unreserved, undesignated, reported in:					
General Fund	35,532,301				35,532,301
Special Revenue Funds		(12,382,220)		76,829,465	64,447,245
Permanent Funds				16,425,999	16,425,999
TOTAL FUND BALANCES	64,312,438	101,261	28,369,080	125,405,292	218,188,071
Total Liabilities and Fund Balances	$76,478,554	$20,069,710	$51,792,526	$142,865,971	$291,206,761

See accompanying notes to financial statements

CITY OF ROSEVILLE
Reconciliation of
GOVERNMENTAL FUNDS -- FUND BALANCE
with the Governmental Activities
NET ASSETS
JUNE 30, 2006

TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	$218,188,071
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	688,394,008
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of 'certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.	
Cash and investments	53,584,070
Accounts receivable	8,308
Interest receivable	1,341,377
Due from other government agencies	21,484
Prepaid	620,524
Inventories	876,794
Accounts payable	(658,478)
Accrued liabilities	(39,523)
Self-insurance claims payable	(8,470,000)
Compensated absences	(312,616)
Internal balances	5,046,339
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	5,610,219
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(33,280,209)
Interest payable and other accrued liabilities, included in accrued liabilities	(509,809)
Non-current portion of compensated absences	(7,155,425)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$923,265,134

See accompanying notes to financial statements

CITY OF ROSEVILLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2006

	General	Redevelopment Agency of the City of Roseville	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$72,871,777	$5,506,123		$4,392,791	$82,770,691
Less Educational Revenue Augmentation Fund payment (Note 19)		(323,743)			(323,743)
Licenses and permits	2,020,467				2,020,467
Charges for services	17,353,831			13,941,436	31,295,267
Subventions and grants	2,004,706	56,761		8,289,814	10,351,281
Use of money and property	1,580,294	571,749	$2,320,216	3,312,716	7,784,975
Fines, forfeitures and penalties	768,638			1,184,767	1,953,405
Contributions from property owners			92,645,369		92,645,369
Contributions from developers	638,802	395,042	11,288	2,292,513	3,337,645
Miscellaneous revenues	3,607,125	48,316	1,306,580	2,937,547	7,899,568
Total Revenues	100,845,640	6,254,248	96,283,453	36,351,584	239,734,925
EXPENDITURES					
Current:					
General government	24,480,432			458,424	24,938,856
Community development and planning	4,784,483	2,980,943		3,122,636	10,888,062
Public works	12,035,250			3,361,446	15,396,696
Public safety:					
Police	25,567,869				25,567,869
Fire	16,297,463			617,930	16,915,393
Library	3,129,784			3,583	3,133,367
Parks and recreation	13,220,014			2,787,363	16,007,377
Housing assistance payments				2,974,236	2,974,236
Capital outlay	7,627,571	3,290,860	66,327,795	31,068,558	108,314,784
Payments under development agreements (Note 7)	2,592,039				2,592,039
Debt service					
Principal retirement	111,946	225,000		605,000	941,946
Interest and fiscal charges	23,472	1,205,253		712,277	1,941,002
Total Expenditures	109,870,323	7,702,056	66,327,795	45,711,453	229,611,627
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,024,683)	(1,447,808)	29,955,658	(9,359,869)	10,123,298
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of property	3,357,188	146,279			3,503,467
Proceeds from capital lease (Note 9)				2,239,765	2,239,765
Transfers in (Note 4A)	21,206,973	940,000	200,000	16,092,185	38,439,158
Transfers (out) (Note 4A)	(8,464,833)	(253,440)	(958,422)	(11,130,142)	(20,806,837)
Total Other Financing Sources (Uses)	16,099,328	832,839	(758,422)	7,201,808	23,375,553
NET CHANGE IN FUND BALANCES	7,074,645	(614,969)	29,197,236	(2,158,061)	33,498,851
Fund balances at beginning of period	57,237,793	716,230	(828,156)	127,563,353	184,689,220
FUND BALANCES AT END OF PERIOD	$64,312,438	$101,261	$28,369,080	$125,405,292	$218,188,071

See accompanying notes to financial statements

CITY OF ROSEVILLE

Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$33,498,851
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance	103,685,200
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $3,598,624 which has already been allocated to serviced funds.)	(11,556,350)
Loss on retirement of capital assets (Internal service fund retirement of $8,747 has already been deducted from capital assets)	(6,205,451)
Transfer of assets to Business-Type Activities	(276,329)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Proceeds from the issuance of debt and capital assets are deducted from fund balance	(2,239,765)
Repayment of debt principal is added back to fund balance	941,946
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Long-term compensated absences	3,393,971
Interest payable and accrued liabilities, included in accrued liabilities	7,348
Deferred revenues	90,248
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	8,601,784
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$129,941,453

See accompanying notes to financial statements

CITY OF ROSEVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES				
Taxes	$68,894,665	$71,170,200	$72,871,777	$1,701,577
Licenses and permits	4,943,460	4,943,460	2,020,467	(2,922,993)
Charges for services	11,867,159	19,195,545	17,353,831	(1,841,714)
Subventions and grants	994,875	1,671,518	2,004,706	333,188
Use of money and property	1,121,165	1,131,165	1,580,294	449,129
Fines, forfeitures and penalties	511,000	511,000	768,638	257,638
Contributions from developers	1,188,000	1,513,000	638,802	(874,198)
Miscellaneous revenues	1,330,000	2,905,245	3,607,125	701,880
TOTAL REVENUES	90,850,324	103,041,133	100,845,640	(2,195,493)
EXPENDITURES				
Current:				
General government				
Council				
Salaries and benefits	38,630	38,630	35,990	2,640
Operating services and supplies	392,671	450,954	275,570	175,384
City attorney				
Salaries and benefits	1,177,460	1,145,090	1,144,731	359
Operating services and supplies	220,559	220,559	218,900	1,659
City manager				
Salaries and benefits	1,525,700	1,502,900	1,452,226	50,674
Operating services and supplies	406,246	438,723	366,501	72,222
Finance				
Salaries and benefits	5,147,441	5,137,151	4,810,554	326,597
Operating services and supplies	2,172,545	3,252,545	2,307,851	944,694
Human resources				
Salaries and benefits	1,535,070	1,501,920	1,453,679	48,241
Operating services and supplies	619,686	655,436	584,922	70,514
Information technology				
Salaries and benefits	3,192,010	3,192,010	3,166,791	25,219
Operating services and supplies	2,028,288	2,099,388	1,528,058	571,330
City clerk				
Salaries and benefits	586,150	586,150	536,120	50,030
Operating services and supplies	185,590	185,590	79,574	106,016
Economic Development				
Salaries and benefits	205,550	246,550	239,029	7,521
Operating services and supplies	153,238	201,688	161,893	39,795
Central services				
Salaries and benefits	3,089,320	3,089,320	2,900,948	188,372
Operating services and supplies	3,862,235	4,222,703	3,217,095	1,005,608
Community development and planning				
Housing				
Salaries and benefits	167,370	167,370	188,642	(21,272)
Operating services and supplies	117,809	117,809	103,814	13,995
Community development				
Salaries and benefits	1,158,080	1,199,766	1,047,502	152,264
Operating services and supplies	411,596	411,596	150,140	261,456
Planning				
Salaries and benefits	2,300,190	1,837,236	2,177,833	(340,597)
Operating services and supplies	1,689,828	5,499,339	1,116,552	4,382,787

(Continued)

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
Public works				
Salaries and benefits	10,117,892	9,983,642	8,676,220	1,307,422
Operating services and supplies	4,791,216	4,910,066	3,359,030	1,551,036
Public safety:				
Police				
Salaries and benefits	21,083,340	22,288,212	21,076,281	1,211,931
Operating services and supplies	4,597,865	4,948,319	4,491,588	456,731
Fire				
Salaries and benefits	13,902,470	14,427,658	14,365,306	62,352
Operating services and supplies	2,303,578	2,428,758	1,932,157	496,601
Library				
Salaries and benefits	2,948,440	2,948,440	2,386,485	561,955
Operating services and supplies	736,219	736,219	743,299	(7,080)
Parks and recreation				
Salaries and benefits	9,836,052	9,893,311	8,640,239	1,253,072
Operating services and supplies	4,751,144	4,778,539	4,579,775	198,764
Capital outlay	7,788,543	23,317,852	7,627,571	15,690,281
Payments under development agreements	2,558,350	2,557,600	2,592,039	(34,439)
Debt Service:				
Principal	1,550,120	241,870	111,946	129,924
Interest and fiscal charges	44,950	44,950	23,472	21,478
TOTAL EXPENDITURES	119,393,441	140,905,859	109,870,323	31,035,536
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property		2,610,000	3,357,188	747,188
Transfers in	21,564,327	23,827,327	21,206,973	(2,620,354)
Transfers (out)	(3,068,600)	(6,120,941)	(8,464,833)	(2,343,892)
Total Other Financing Sources (Uses)	18,495,727	20,316,386	16,099,328	(4,217,058)
NET CHANGE IN FUND BALANCE	($10,047,390)	($17,548,340)	7,074,645	
Fund balance at beginning of year			57,237,793	
Fund balance at end of year			$64,312,438	

See accompanying notes to financial statements

CITY OF ROSEVILLE
REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Final	
REVENUES				
Taxes	$4,513,200	$5,597,890	$5,506,123	($91,767)
Less Educational Revenue Augmentation Fund payment (Note 19)			(323,743)	(323,743)
Subventions and grants	954,730	455,900	56,761	(399,139)
Use of money and property	99,974	99,974	571,749	471,775
Contributions from developers	360,000	(33,815)	395,042	428,857
Miscellaneous revenues	16,658	45,358	48,316	2,958
Total revenues	5,944,562	6,165,307	6,254,248	88,941
EXPENDITURES				
Community development and planning				
Community services				
Salaries and benefits	388,450	395,610	378,798	16,812
Operating services and supplies	2,018,069	2,060,249	1,065,722	994,527
Pass-through payments	1,331,090	1,537,460	1,536,423	1,037
Capital outlay	11,310,903	13,703,714	3,290,860	10,412,854
Debt service:				
Principal		225,000	225,000	
Interest and fiscal charges		756,475	1,205,253	(448,778)
Total expenditures	15,048,512	18,678,508	7,702,056	10,976,452
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	75,000	456,280	146,279	(310,001)
Transfers in	2,000,360		940,000	940,000
Transfers out	(1,024,800)		(253,440)	(253,440)
Total Other Financing Sources (Uses)	1,050,560	456,280	832,839	376,559
NET CHANGE IN FUND BALANCE	($8,053,390)	($12,056,921)	(614,969)	$11,441,952
Fund balance at beginning of year			716,230	
Fund balance at end of year			$101,261	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

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MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2006.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

ELECTRIC FUND

This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

WATER FUND

This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

WASTEWATER FUND

This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

SOLID WASTE FUND

This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

GOLF COURSE FUND

This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

LOCAL TRANSPORTATION FUND

This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

SCHOOL-AGE CHILD CARE FUND

This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
ASSETS					
Current Assets:					
Cash and investments in City Treasury (Note 3)	$78,755,760	$50,322,005	$11,627,998	$2,781,190	$1,471,357
Restricted cash and investments with fiscal agents (Note 3)	145,950,098	2,612,496			624,213
Receivables:					
Taxes	32,934				
Accounts	13,142,903	3,431,103	1,893,938	2,036,859	79,379
Accrued Interest	878,779	415,728	85,780	22,092	35,363
Due from other government agencies		68,422	1,238,460	108,393	
Due from other funds (Note 4B)			197,610		
Inventories (Note 1I)	5,691,039	1,988,800	66,992	127,152	
Prepaids					
Total Current Assets	244,451,513	58,838,554	15,110,778	5,075,686	2,210,312
Noncurrent Assets:					
Deferred receivables (Note 6)	606,079	70,955	7,232		
Notes receivable from NCPA (Note 15B)	192,879				
Prepaid purchased electricity (Note 14)	4,584,532				
Unamortized bond origination costs	597,196	550,186			268,853
Investment in NCPA reserves (Note 15)	12,008,493				
Investment in SPWA reserves (Note 16)			111,170,459		
Advances to other funds (Note 4C)			1,545,390		
Capital assets (Note 8):					
Land and construction in progress	148,684,569	15,653,841	7,966,242	409,632	6,007,666
Capital assets being depreciated, net	196,961,979	325,216,082	433,597,588	3,436,132	11,640,654
Total Noncurrent Assets	363,635,727	341,491,064	554,286,911	3,845,764	17,917,173
Total Assets	608,087,240	400,329,618	569,397,689	8,921,450	20,127,485
LIABILITIES					
Current Liabilities					
Accounts payable	16,457,123	2,680,509	410,069	699,490	149,148
Accrued liabilities	2,557,436	358,747	210,994	123,884	125,902
Due to other government agencies	79,554		947,186		
Due to other funds (Note 4B)				197,610	127,000
Current portion of compensated absences (Note 1G)	1,047,855	507,286	578,009	245,481	
Current portion of long-term debt (Note 9)	1,400,000	1,405,810	1,746,983		320,000
Deposits	37,919,147	48,000			10,322
Unearned revenue	6,455,973				
Self-insurance claims payable (Note 13)					
Total Current Liabilities	65,917,088	5,000,352	3,893,241	1,266,465	732,372
Long-Term Liabilities					
Deferred liabilities				108,192	
Advances from other funds (Note 4C)				1,545,390	3,766,000
Notes (Note 9)		161,246			
Certificates of participation (Note 9)	269,020,000	23,345,000			7,310,000
Unamortized loss on refunding (Note 9)	(3,093,118)		(5,542,144)		
Revenue bonds (Note 9)			94,773,123		
Landfill closure and post closure liability (Note 17)				3,678,093	
Compensated absences (Note 1G)	1,054,130	548,111	545,767	266,450	
Total Long-Term Liabilities	266,981,012	24,054,357	89,776,746	5,598,125	11,076,000
Total Liabilities	332,898,100	29,054,709	93,669,987	6,864,590	11,808,372
NET ASSETS					
Invested in capital assets, net of related debt	156,500,395	316,119,113	345,043,724	3,845,764	10,018,320
Restricted for debt service	17,319,323	2,612,320			624,020
Restricted for local transportation					
Unrestricted	101,369,422	52,543,476	130,683,978	(1,788,904)	(2,323,227)
Total Net Assets	$275,189,140	$371,274,909	$475,727,702	$2,056,860	$8,319,113

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$13,990,183	$338,776	$159,287,269	$53,544,070
		149,186,807	40,000
		32,934	
12,687	568,448	21,165,317	8,308
60,056	2,621	1,500,419	1,341,377
313,900	25,589	1,754,764	21,484
		197,610	339,500
		7,873,983	876,794
			620,524
14,376,826	935,434	340,999,103	56,792,057
		684,266	
		192,879	
		4,584,532	
		1,416,235	
		12,008,493	
		111,170,459	
		1,545,390	5,107,701
921,979	443,326	180,087,255	
4,961,721	519,348	976,333,504	13,869,030
5,883,700	962,674	1,288,023,013	18,976,731
20,260,526	1,898,108	1,629,022,116	75,768,788
378,528	50,156	20,825,023	658,478
14,920	78,232	3,470,115	39,523
		1,026,740	
	22,249	346,859	400,862
49,055	181,561	2,609,247	147,943
		4,872,793	
90	12,597	37,990,156	
6,227,486	352,013	13,035,472	
			8,470,000
6,670,079	696,808	84,176,405	9,716,806
	17,050	125,242	
	300,000	5,611,390	
		161,246	
		299,675,000	
		(8,635,262)	
		94,773,123	
		3,678,093	
83,464	6,815	2,504,737	164,673
83,464	323,865	397,893,569	164,673
6,753,543	1,020,673	482,069,974	9,881,479
5,883,700	962,674	838,373,690	13,869,030
		20,555,663	
7,623,283		7,623,283	
	(85,239)	280,399,506	52,018,279
$13,506,983	$877,435	$1,146,952,142	$65,887,309

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
OPERATING REVENUES					
Charges for services	$101,342,497	$12,382,530	$19,010,612	$17,108,946	$2,728,198
Sale of wholesale power	1,065,466				
Other	364,631	1,067,734	15,130	449,546	19,653
Total Operating Revenues	102,772,594	13,450,264	19,025,742	17,558,492	2,747,851
OPERATING EXPENSES					
Purchased power	68,658,451				
Operations	14,258,264	8,259,428	13,944,737	13,465,549	1,766,682
Administration	2,164,378	3,413,000	492,126	651,821	
Depreciation and amortization	5,456,109	5,455,952	9,275,909	103,361	407,236
Claims expense					
Total Operating Expenses	90,537,202	17,128,380	23,712,772	14,220,731	2,173,918
Operating Income (Loss)	12,235,392	(3,678,116)	(4,687,030)	3,337,761	573,933
NONOPERATING REVENUES (EXPENSES)					
Interest and rents revenue/expense	8,167,037	1,799,802	260,510	72,283	100,468
Interest and fiscal charges (expense)	(6,564,739)	(1,381,660)	(3,494,945)		(305,460)
Subventions and grants		2,019,853		26,489	
Increase (decrease) in NCPA reserves	8,923,097				
Increase (decrease) in SPWA reserves			2,762,591		
Nonoperating revenues	1,825,199				
Net Nonoperating Revenues (Expenses)	12,350,594	2,437,995	(471,844)	98,772	(204,992)
Income (Loss) Before Contributions and Transfers	24,585,986	(1,240,121)	(5,158,874)	3,436,533	368,941
Capital contributions - connection fees		9,371,034	5,714,315		
Contribution in aid of construction	3,742,557				
Capital contributions from developers	3,754,345	20,684,227	11,831,371		
Capital contributions from SPWA member agencies			1,478,577		
Transfers in (Note 4A)	9,000	1,234,522		82,676	
Transfers (out) (Note 4A)	(11,952,657)	(4,286,755)	(4,134,568)	(3,865,296)	(159,533)
Change in net assets	20,139,231	25,762,907	9,730,821	(346,087)	209,408
Total net assets-beginning	255,049,909	345,512,002	465,996,881	2,402,947	8,109,705
Total net assets-ending	$275,189,140	$371,274,909	$475,727,702	$2,056,860	$8,319,113

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities-Internal Service Funds
$583,613	$4,831,838	$157,988,234	$19,943,861
		1,065,466	
17,474	2,046	1,936,214	447,899
601,087	4,833,884	160,989,914	20,391,760
		68,658,451	
3,143,834	4,404,620	59,243,114	12,753,371
483,094		7,204,419	
788,483	14,523	21,501,573	3,598,624
			2,717,792
4,415,411	4,419,143	156,607,557	19,069,787
(3,814,324)	414,741	4,382,357	1,321,973
161,569	(2,088)	10,559,581	1,289,649
	(11,658)	(11,758,462)	
32,003	220,844	2,299,189	14,000
		8,923,097	
		2,762,591	
		1,825,199	25,907
193,572	207,098	14,611,195	1,329,556
(3,620,752)	621,839	18,993,552	2,651,529
		15,085,349	
		3,742,557	
652,854		36,922,797	
		1,478,577	
184,157	4,240	1,514,595	6,896,645
(365,082)	(333,280)	(25,097,171)	(946,390)
(3,148,823)	292,799	52,640,256	8,601,784
16,655,806	584,636	1,094,311,886	57,285,525
$13,506,983	$877,435	$1,146,952,142	$65,887,309

CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$120,766,055	$10,587,114	$18,486,764	$16,845,597	$2,723,711
Payments to suppliers	(71,055,252)	(6,101,799)	(10,026,720)	(10,364,609)	(1,668,850)
Payments to employees	(9,041,112)	(5,749,107)	(4,475,934)	(3,913,919)	
Claims paid					
Other receipts	364,631	1,067,734	15,130	449,546	19,653
Net cash provided by operating activities	41,034,322	(196,058)	3,999,240	3,016,615	1,074,514
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
(Increase) decrease in due from other funds			(197,610)		
Increase (decrease) in due to other funds				197,610	127,000
(Increase) decrease in advance to other funds			(1,545,390)		
Increase (decrease) in advances from other funds				1,545,390	(127,000)
Transfers in	9,000	1,234,522		82,676	
Transfers (out)	(11,952,657)	(4,286,755)	(4,134,568)	(3,865,296)	(159,533)
Cash Flows from Noncapital Financing Activities	(11,943,657)	(3,052,233)	(5,877,568)	(2,039,620)	(159,533)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	7,496,902	20,684,227			
Acquisition and construction of capital assets, net	(119,388,967)	(32,828,863)	60,836	(1,177,162)	
Transfer of connection fees to SPWA			(5,028,159)		
Change in restricted assets	92,188,659	(53)			(119)
Principal payments on capital debt	(6,170,000)	(1,345,295)			(315,000)
Interest paid on capital debt	(6,564,739)	(1,381,659)			(305,460)
Subventions and grants	894,057	2,023,755	3,025,430	94,263	
Connection fees		9,371,034	5,714,315		
Other	1,825,199				
Cash Flows from Capital and Related Financing Activities	(29,718,889)	(3,476,854)	3,772,422	(1,082,899)	(620,579)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	7,946,932	1,767,773	251,624	74,247	95,335
Net increase (decrease) in cash and cash equivalents	7,318,708	(4,957,372)	2,145,718	(31,657)	389,737
Cash and investments at beginning of period	71,437,052	55,279,377	9,482,280	2,812,847	1,081,620
Cash and investments at end of period	$78,755,760	$50,322,005	$11,627,998	$2,781,190	$1,471,357
NONCASH TRANSACTIONS:					
Contribution of SPWA capital assets to City			$4,256,591		
Principal retirement of SPWA Revenue Bonds			(1,676,562)		
Interest on SPWA Revenue Bonds			(3,504,143)		
Contribution of capital assets from developers			11,831,371		
Retirement of capital assets	($138,762)	($1,448,248)	(180,392)	($30,648)	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income (loss)	$12,235,392	($3,678,116)	($4,687,030)	3,337,761	$573,933
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	5,456,109	5,455,952	9,275,909	103,361	407,236
Change in assets and liabilities:					
Receivables, net	(722,903)	(1,788,416)	(519,020)	(263,349)	(3,865)
Inventories	(40,066)	(1,328,267)	4,171	(33,789)	
Prepaids					
Accounts and other payables	19,748,062	1,142,789	(74,790)	(127,369)	97,210
Deferred revenue	4,357,728				
Net cash provided by operating activities	$41,034,322	($196,058)	$3,999,240	$3,016,615	$1,074,514

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
$6,325,419	$4,798,888	$180,533,548	$19,987,238
(2,991,570)	(620,843)	(102,829,643)	(11,451,611)
(578,518)	(3,909,162)	(27,667,752)	(2,064,866)
			(1,722,792)
17,474	2,046	1,936,214	447,899
2,772,805	270,929	51,972,367	5,195,868
		(197,610)	(127,000)
	(127,578)	197,032	(312,638)
		(1,545,390)	339,500
		1,418,390	
184,157	4,240	1,514,595	6,896,645
(365,082)	(333,280)	(25,097,171)	(946,390)
(180,925)	(456,618)	(23,710,154)	5,850,117
652,854		28,833,983	
(543,053)		(153,877,209)	(5,953,572)
		(5,028,159)	
		92,188,487	
		(7,830,295)	
		(8,251,858)	
9,483,277	195,886	15,716,668	
		15,085,349	
		1,825,199	25,907
9,593,078	195,886	(21,337,835)	(5,927,665)
129,577	(2,451)	10,263,037	1,170,077
12,314,535	7,746	17,187,415	6,288,397
1,675,648	331,030	142,099,854	47,295,673
$13,990,183	$338,776	$159,287,269	$53,584,070
		$4,256,591	
		(1,676,562)	
		(3,504,143)	
		11,831,371	
		(1,798,050)	
($3,814,324)	414,741	4,382,357	$1,321,973
788,483	14,523	21,501,573	3,598,624
(11,454)	(57,166)	(3,366,173)	(101,926)
		(1,397,951)	
			(620,524)
56,930	(122,158)	20,720,674	997,721
5,753,170	20,989	10,131,887	
$2,772,805	$270,929	$51,972,367	$5,195,868

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FIDUCIARY FUNDS

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FIDUCIARY FUNDS

Fiduciary funds are presented separately from the Government-wide and Fund financial statements.

Endowment Private-Purpose Trust funds are used to account for trust arrangements under which principal and income benefit private organizations.

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciarv Fund financial statements.

CITY OF ROSEVILLE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Endowment Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments in Treasury (Note 3)	$2,018,964	$178,754,986
Restricted cash and investments with fiscal agents (Note 3)		58,802,360
Accounts receivable		160,893
Accrued interest receivable	15,947	1,237,559
Due from other government agencies		2,700,026
Total Assets	2,034,911	$241,655,824
LIABILITIES		
Accounts payable	6,316	$3,294,096
Accrued liabilities		326,561
Due to other government agencies		13,014
Due to member agencies		183,135,487
Due to bondholders		54,790,488
Due to others		96,178
Total Liabilities	6,316	$241,655,824
NET ASSETS		
Held in trust for private purpose	$2,028,595	

See accompanying notes to financial statements

CITY OF ROSEVILLE
ENDOWMENT PRIVATE-PURPOSE TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

ADDITIONS	
Contributions from developers	$65,936
Investment income	49,050
Total additions	114,986
DEDUCTIONS	
Payments in accordance with trust agreements	32,774
Change in net assets	82,212
Net assets - beginning	1,946,383
Net assets - end	$2,028,595

See accompanying notes to financial statements

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NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Roseville was incorporated on April 10, 1909 under provisions of Act 279, P.A. 1909, as amended (Home Rule City). The City operates under the Council Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, water, solid waste, electric, local transportation, school-age child care, golf course, parks recreation, public improvements, planning and zoning, library, general administration services, redevelopment and housing.

The financial statements and accounting policies of the City conform with generally accepted accounting principles in the United States of America applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. This City's component units which are described below are all blended.

The **Redevelopment Agency of the City of Roseville** is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency have been included in these financial statements in the Redevelopment Agency of the City of Roseville Special Revenue Fund.

The **Roseville Finance Authority** is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital facilities within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Roseville Finance Authority Debt Service Fund and Capital Projects Fund.

The **City of Roseville Housing Authority** is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Housing Authority Section 8 Special Revenue Fund.

Financial statements for the Redevelopment Agency may be obtained from the City of Roseville at 311 Vernon Street, Roseville, California, 95678. Separate financial statements for the Roseville Finance Authority and Roseville Housing Authority are not issued.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The California Joint Powers Risk Management Authority, the Local Agency Workers' Compensation Excess Joint Powers Authority, the Roseville-Placer County Civic Center Improvement Authority, the Highway 65 Joint Powers Authority, the Disaster Recovery Joint Powers Authority, and the South Placer Wastewater Authority are not included in the accompanying basic financial statements because they do not meet the above financial accountability criteria as these entities are administered by governing boards separate from and wholly independent of the City.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government, the City and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Major Funds*

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - This is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

Redevelopment Agency - The Redevelopment Agency Fund accounts for all activities of the Agency, including 1) tax increment allocations set aside for the purpose of increasing or improving housing for low-income residents; 2) the accumulation of property taxes for payment of interest and principal on the Redevelopment Agency tax allocation bonds issued in 2003; 3) capital projects connected with downtown redevelopment funded by property tax increment revenues.

Community Facilities District Projects Fund - This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Electric Fund - This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

Water Fund - This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

Wastewater Fund - This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

Solid Waste Fund - This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

Golf Course Fund – This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

Local Transportation Fund – This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

School-age Child Care Fund – This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

The City also reports the following fund types:

Internal Service Funds. The funds account for automotive services, automotive replacement, worker's compensation, general liability, unemployment reserve, vision, dental, section 125, post retirement, and central stores; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds. The Endowment Private-Purpose Trust Fund and the Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and private-purpose trust fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred,* regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available.* The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources.*

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, certain charges for services and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. Revenue Recognition For Electric, Water, Sewer, and Garbage Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There are twenty billing cycles per month which include all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

F. Property Tax

Placer County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the county, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. Compensated Absences

Compensated absences comprise unused vacation leave, vested sick pay and certain compensated time off, which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long term portion is recorded in the Statement of Net Assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	$11,133,428	$5,206,618	$16,340,046
Additions	(3,411,566)	(25,719)	(3,437,285)
Payments	(126,912)	(66,915)	(193,827)
Ending Balance	$7,594,950	$5,113,984	$12,708,934
Current Portion	$274,852	$2,609,247	$2,884,099

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund and the Redevelopment Agency of the City of Roseville Special Revenue Fund.

H. Postemployment Heath Care Benefits

The City provides health care benefits for 327 retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees hired before January 1, 2004 may become eligible for those benefits if they reach the normal retirement age and have a minimum five years of service while working for the City. Employees hired after January 1, 2004 may become eligible for those benefits if they reach the normal retirement age and have years of service credit that range from 10 to 20 years with the City's contributions ranging from 50% to 100%, respectively. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. For the year ending June 30, 2006, those costs totaled $1,953,035.

I. Inventories

Inventories are valued at cost, using the weighted-average method. Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed. Reported General Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets. Inventories of the Enterprise Funds consist primarily of merchandise held for internal consumption.

J. New Funds

The South Placer Animal Central Shelter Special Revenue Fund, and the Stone Point CFD #5, NC SP PAR 44 CFD, Placer County Air Quality Pollution Control, and the Sierra College Boulevard Fee Agency Funds were established in fiscal year 2006.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgeting Procedures

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. The budget is legally enacted through passage of a minute order and ordinance.

4. The City Manager or designee is authorized to apply prudent monitoring procedures to assure that actual expenditures/expenses of the City do not exceed the appropriations by department of the major summary categories (salaries and benefits, operating services and supplies, capital outlay, and capital improvement projects) in conformance with the adopted policies set by the City Council. Additional appropriations or interfund transfers not included in the original budget ordinance require approval by the City Council.

5. Expenditures may not legally exceed budgeted appropriations at the department level by major summary category within each fund.

6. Formal budgetary integration is employed as a management control device during the year.

7. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds. Budgets are adopted for all governmental funds except for the following Special Revenue and Permanent Funds:

    i. Special Revenue Funds
        1. Park and Recreation Donation
        2. Forfeited Property
    ii. Permanent Fund
        1. Roseville Aquatics Complex Maintenance

    The following funds are budgeted on a project basis. Such budgets are based on a project time frame, rather than a fiscal year "operating" time frame, whereby unused appropriations continue until project completion:

    i. Special Revenue Funds
        1. Traffic Mitigation
        2. State Gasoline Tax
        3. Park Development
        4. Pleasant Grove Drain Basin
        5. Tree Propagation
    ii. Capital Project Funds
        1. Community Facilities District
        2. Building

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

C. Excess of Expenditures or Expenses over Appropriations

The Funds below incurred expenditures in excess of their budgets in the amounts below. Sufficient resources were available within each department to finance these overages.

Fund	Department	Amount
General Fund:		
	Housing	
	Salaries and benefits	$21,272
	Planning	
	Salaries and benefits	340,597
	Library	
	Operating services & supplies	7,080
	Payments under developer agreement	34,439
Redevelopment Agency Special Revenue Fund:		
	Debt service:	
	Interest and fiscal charges	448,778
Fire Facilities Special Revenue Fund:		
	Debt service:	
	Interest and fiscal charges	8,100
Community Block Grant/HOME Special Revenue Fund:		
	Parks and recreation	
	Operating services & supplies	286
Affordable Housing Special Revenue Fund:	Community services	
	Operating services & supplies	994,741
Storm Water Management Special Revenue Fund:		
	Capital outlay	37

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments,* or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

The City's investments are carried at fair value instead of cost, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

A. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agency agreements.

Cash and investments in City Treasury	$406,094,296
Restricted cash and investments with fiscal agent	200,879,701
Total City cash and investments	606,973,997
Cash and investments in Fiduciary Funds (Separate statement)	239,576,310
Total Cash and Investments	$846,550,307

Cash and investments as of June 30, 2006 consist of the following:

Cash in bank and on hand	$30,350,546
Investments	816,199,761
Total Cash and Investments	$846,550,307

Cash and investments with original maturities of three months or less are treated as cash and equivalents for purpose of preparing Proprietary Fund statements of cash flows. Also, each Proprietary Funds' portion of the City's overall cash and investment pool is treated as cash and equivalents since these amounts are in substance demand deposits.

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 Years	None	None	None
U.S. Agency Securities	5 Years	None	None	None
Mortgage Pass-Through Securities	5 Years	None	20%	None
Forward Delivery Agreements (A)	N/A	A	None	None
Local Agency Bonds	5 Years	None	None	None
Repurchase Agreements	30 days	None	None	None
Banker's Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1	25%	10% (B)
Medium-Term Notes	5 Years	AA	30%	None
Collateralized Time Deposits	5 Years	None	None	None
Negotiable Certificates of Deposit	5 Years	AA	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None
Insured Saving Accounts	N/A	None	None	None
Money Market Mutual Funds	N/A	None	20%	10%
Shares in a California Common Law Trust	N/A	None	None	None
Interest Rate Swaps (C)	N/A	None	None	None

(A) In specified fund accounts where liquidity is not the primary investment objective, the maximum maturity can be up to ten years with granted express authority by the City Council. Such investments cannot be made less than three months following the approval of extended investment terms. All longer-term investments must be Federal Treasury or Agency securities. The specified fund accounts are:

- Citizens Benefit Permanent Fund
- Roseville Aquatics Complex Maintenance Permanent Fund
- Endowment Private-purpose Trust Fund
- All future trust and/or endowment funds established by the City with no anticipated use of principal

(B) Eligible Commercial Paper may not represent more than 10% of the outstanding paper of an issuing corporation.

(C) Interest rate swaps may only be used in conjunction with enterprise fund debt or investments, not the General Fund. Currently, the City does not participate in any Forward Delivery Agreements. Pursuant to its function as custodian and investment manager of the South Placer Wastewater Authority, the City invested certain Authority funds in Forward Delivery Agreements which are investments with fixed maturities and which bear interest at a variable rate. To hedge against changes in short term interest rates, the Authority entered into a swap agreement to create a synthetic fixed interest rate on one of the Forward Delivery Agreements. Risks associated with the Forward Delivery Agreement and associated swap agreement are those of the Authority and not those of the City. Details of the swap agreement and associated risks may be found in the Basic Financial Statements of the Authority.

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Investments Authorized by Debt Agreements*

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	N/A	None
U.S. Agency Securities	N/A	None
Certificates of Deposit	N/A - 30 days	None - A-1
Time Deposits	N/A - 30 days	None - A-1
Repurchase Agreements	N/A	None - A
Bankers Acceptances	N/A - 270 days	None - A-1
Obligations	N/A	None
Money Market Funds	N/A	None - Aam-G
Taxable Gov't Money Market Portfolio	N/A	None
Legal Investment	N/A	None
Commercial Paper (A)	180-270 days	A-1 - AA
General Obligations	N/A	None - A
General Short-term Obligations	N/A	A-1
Special Revenue Bonds	N/A	AA
Pre-refunded Municipal Obligations	N/A	AAA
Municipal Obligations	N/A	AAA
Common Law Trust	N/A	None
C.A.M.P.	N/A	None
Lawful Investment	N/A	None
Investment Agreements	N/A	A+ - AA
L.A.I.F.	N/A	None
Placer County Investment Pool	N/A	None

(A) Maximum investment in one issuer of Commercial Paper is 10% of the outstanding bond proceeds.

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City also manages its interest rate risk by holding most investments to maturity, thus reversing unrealized market gains and losses.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

	Remaining Maturity (in Months)				
	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months	Total
U.S. Government Securities	$14,137,746	$58,300,853	$11,288,684		$83,727,283
Federal Agency Securities	204,781,653	75,034,630	51,624,554		331,440,837
Corporate Notes	11,382,750		11,316,608		22,699,358
Forward Delivery Agreement			56,450,906	$8,857,396	65,308,302
Commercial Paper	33,179,395				33,179,395
Guaranteed Investment Contracts	37,429,463	76,087,213	3,865,506	25,388,630	142,770,812
Repurchase Agreement				4,905,395	4,905,395
Mutual Funds and Money Market Funds (U.S. Securities)	78,065,785				78,065,785
Local Agency Investment Fund	40,868,373				40,868,373
California Asset Management Pool	11,211,658				11,211,658
Collateralized Time Deposits	2,022,563				2,022,563
Total Investments	$433,079,386	$209,422,696	$134,546,258	$39,151,421	$816,199,761

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. At June 30, 2006 the fair value was $74,277 less than the City's cost. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2006 for each investment type as provided by Standard and Poor's investment rating system:

	AAA	AA	AA-	A+	A-1+	A-1	Total
Investments:							
Federal Agency Securities	$331,440,837						$331,440,837
Corporate Notes	2,699,580	$2,071,112	$6,545,916	$11,382,750			22,699,358
Forward Delivery Agreement			56,450,906	8,857,396			65,308,302
Commercial Paper					$30,678,465	$2,500,930	33,179,395
Guaranteed Investment Contracts	129,116,962	11,540,578	2,113,272				142,770,812
Repurchase Agreements			4,905,395				4,905,395
Mutual Funds and Money Market Funds (U.S. Securities)	78,065,785						78,065,785
Totals	$541,323,164	$13,611,690	$70,015,489	$20,240,146	$30,678,465	$2,500,930	678,369,884
Exempt from Credit Rate Disclosure:							
U.S. Government Securities							83,727,283
Not Rated:							
Local Agency Investment Fund							40,868,373
California Asset Management Pool							11,211,658
Collateralized Time Deposits							2,022,563
Total Investments							$816,199,761

F. Concentration of Credit Risk

Investments in any one issuer, other than U. S. Treasury securities, mutual funds, California Local Agency Investment Fund, and California Asset Management Pool, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2006:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	Federal Agency Securities	$114,350,511
Federal National Mortgage Association	Federal Agency Securities	108,582,471
Federal Home Loan Bank	Federal Agency Securities	103,875,842
Trinity Plus Funding	Investment Contract	61,143,914

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments in any one issuer that represent 5% or more of total investments by individual funds were as follows at June 30, 2006:

Fund	Issuer	Investment Type	Amount
Major Enterprise			
Electric	Trinity Plus Funding	Investment Agreement	$61,143,914
	FSA Capital Management	Investment Agreement	17,094,035
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	15,269,287
	Federal National Mortgage Association	Federal Agency Securities	15,126,418
	Federal Home Loan Bank	Federal Agency Securities	14,092,395
Water	Federal Home Loan Mortgage Corporation	Federal Agency Securities	7,730,061
	Federal Home Loan Bank	Federal Agency Securities	3,968,750
	UBS Finance Corporation	Commercial Paper	3,467,127
Golf Course	AIG	Investment Contract	624,020
Fiduciary Funds			
Endowment Private Purpose Trust Fund	Federal Home Loan Bank	Federal Agency Securities	678,119
North Roseville Community Facilities District #1	Lehman Brothers	Forward Delivery Agreement	1,747,234
Northeast Roseville Community Facilities District #1	MBIA	Investment Contract	840,847
Northeast Roseville Community Facilities District #2	MBIA	Investment Contract	1,105,291
Northwest Roseville Community Facilities District #1	MBIA	Investment Contract	2,367,738
Highland Reserve North Community Facilities District #2	MBIA	Investment Contract	2,540,146
Woodcreek West Community Facilities District #1	MBIA	Investment Contract	1,402,063
Woodcreek East Community Facilities District #2	MBIA	Investment Contract	484,513
Stoneridge East Community Facilities District #1	Societe Generale	Investment Contract	1,188,365
Stoneridge West Community Facilities District #1	Societe Generale	Investment Contract	924,907
Fiddyment Ranch Community Facilities District #1	Rabobank Contract Agreement	Investment Contract	980,769
South Placer Wastewater Authority Agency Fund	J.P. Morgan	Forward Delivery Agreement	56,450,906
	Federal Home Loan Mortgage Corporation	Federal Agency Securities	15,150,609
	Federal Home Loan Bank	Federal Agency Securities	13,328,167
	Federal National Mortgage Association	Federal Agency Securities	11,597,322

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Among Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2006 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Redevelopment Agency of the City of Roseville	$228,440	(A)
	Non-Major Governmental Funds	3,320,520	(B)
	Non-Major Governmental Funds	290,280	(C)
	Electric Enterprise Fund	9,604,312	(D)
	Water Enterprise Fund	2,822,534	(E)
	Wastewater Enterprise Fund	2,013,352	(E)
	Solid Waste Enterprise Fund	1,431,991	(E)
	Golf Course Enterprise Fund	151,920	(C)
	Local Transportation Enterprise Fund	171,060	(C)
	School-Age Child Care Enterprise Fund	332,500	(C)
	Internal Service Funds	840,064	(C)
Redevelopment Agency	General Fund	600,000	(F)
	Non-Major Governmental Funds	340,000	(F)
Community Facilities District Projects	Non-Major Governmental Funds	200,000	(F)
Non-Major Governmental Funds	General Fund	4,970,976	(A)
	Redevelopment Agency of the City of Roseville	25,000	(A)
	Community Facilities District Capital Projects Fund	774,265	(F)
	Non-Major Governmental Funds	6,501,780	(F)
	Electric Enterprise Fund	1,776,202	(B)
	Water Enterprise Fund	945,880	(D)
	Wastewater Enterprise Fund	705,750	(D)
	Solid Waste Enterprise Fund	310,150	(D)
	Local Transportation Enterprise Fund	82,182	(E)
Electric Enterprise Fund	Non-Major Governmental Funds	9,000	(B)
Water Enterprise Fund	Wastewater Enterprise Fund	837,811	(C)
	Solid Waste Enterprise Fund	396,711	(C)
Solid Waste Enterprise Fund	Water Enterprise Fund	41,338	(F)
	Wastewater Enterprise Fund	41,338	(F)
Local Transportation Enterprise Fund	Community Facilities District Capital Projects Fund	184,157	(F)
School-Age Child Care Enterprise Fund	Non-Major Governmental Funds	4,240	(F)
Internal Service Funds	General Fund	2,893,857	(E)
	Non-Major Governmental Funds	464,322	(E)
	Electric Enterprise Fund	572,143	(E)
	Water Enterprise Fund	477,003	(E)
	Wastewater Enterprise Fund	536,317	(E)
	Solid Waste Enterprise Fund	1,726,444	(E)
	Golf Course Enterprise Fund	7,613	(E)
	Local Transportation Enterprise Fund	111,840	(E)
	School-Age Child Care Enterprise Fund	780	(E)
	Internal Service Funds	106,326	(E)
Total Interfund Transfers		$46,850,398	

(A) To fund operation and fund indirect costs
(B) Transfer to fund operations and indirect costs.
(C) To pay for indirect costs.
(D) To transfer in lieu franchise fees and fund indirect costs.
(E) Recurring transfers.
(F) To fund various projects in the capital funds or pay debt service.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2006 interfund balances comprised the following:

Due From Other Funds	Due To Other Funds	Amount	
General Fund	Redevelopment Agency of the City of Roseville Special Revenue Fund	$750,000	(A)
	Park Development Capital Projects Fund	120,000	(A)
	Roseville Aquatic Complex Maintenance Permanent Fund	4,240	(B)
	School-Age Child Care Enterprise Fund	22,249	(B)
	Automotive Service Internal Service Fund	400,862	(B)
Special Revenue Fund:			
Affordable Housing	Redevelopment Agency of the City of Roseville Special Revenue Fund	0,000	(A)
Enterprise Funds:			
Solid Waste	Wastewater Enterprise Fund	197,610	(A)
Internal Service Fund:			
Automotive Replacement	Traffic Mitigation Special Revenue Fund	212,500	(A)
Automotive Replacement	Golf Enterprise Fund	127,000	(A)
		$1,884,461	

(A) Current portion of the advances mentioned in C below.
(B) To temporarily fund short-term cash flow needs.

C. Long-Term Interfund Advances

At June 30, 2006 the funds below had made advances which were not expected to be repaid within the next year.

Fund Receiving Advance	Fund Making Advance	Amount of Advance
Special Revenue Funds:		
Redevelopment Agency of the City of Roseville	General Fund	$8,595,536
	Gas Tax Special Revenue Fund	3,900,000
	Affordable Housing Special Revenue Fund	200,000
	Automotive Replacement Internal Service Fund	829,201
Traffic Mitigation	Automotive Replacement Internal Service Fund	212,500
Enterprise Funds:		
Solid Waste	Wastewater	1,545,390
Golf Course	Automotive Replacement Internal Service Fund	3,766,000
School-Age Child Care	Automotive Replacement Internal Service Fund	300,000
		$19,348,627

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Redevelopment Agency advance consists of four advances: (1) Advances in the amount of $876,789 will be repaid in fiscal year 2009. (2) Advances in the amount of $7,747,948 will be repaid in fiscal year 2029. Both the advances bear interest at the average interest rate of the City's pooled investments. (3) Advance in the amount of $1,000,000 bears interest at 3.15% and will be repaid in fiscal year 2023. (4) Advances in the amount of $3,900,000 bear no interest and will be repaid in fiscal year 2029.

Traffic Mitigation advance bears interest at the average interest rate of the City's pooled investments. Principal to be repaid over four years, interest at the end of repayment schedule. The first annual principal repayment was paid in fiscal year 2006.

Solid Waste advance bears interest at 3.94%. It will be repaid over a period of 10 years and will be repaid in 2016.

Golf Course advance bears interest from 3.5-4.0%. It will be repaid over a period of 27 years and will be repaid in 2029.

School-Age Child Care advance will be repaid over five years beginning in fiscal year 2007. This advance bears interest at the average interest rate of the City's pooled investments and interest is to be paid at the end of the loan.

D. Internal Balances

Internal balances are presented in the City-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 - NOTES RECEIVABLE

The City and Agency engage in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these notes are expected to be repaid in full, their balance has been offset in the fund financial statements by deferred revenue or a reservation of fund balance as they are not expected to be repaid during fiscal year 2007. These notes receivable comprised the following at June 30, 2006:

Notes	$285,591
Employee Notes	90,494
Housing Rehabilitation and Affordable Housing Notes	4,929,514
First Time Home-Buyer Notes	4,985,338
Housing Elevation Notes	28,978
Total	$10,319,915

NOTE 5 - NOTES RECEIVABLE (Continued)

A. Notes Receivable

The City has provided loans to various homeowners and businesses for rehabilitation due to flood damage. The maximum loan amount is $5,000 carrying various interest rates and payment dates. Although these notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance. The balance of these notes receivable at June 30, 2006 was $6,632.

In fiscal year 2000, the City sold an air compressor to Western Placer County JPA. The loan balance of $22,592 was repaid during fiscal year 2006.

In fiscal year 1989, the City made a loan to a property owner in the amount of $7,719, secured by a first deed of trust. The note does not bear interest and payment is deferred until July 2, 2007 unless the property is transferred or sold. The balance of this note has been offset by a reservation of fund balance.

The Agency engages in a commercial rehabilitation program designed to aid small business owners in renovating and rehabilitating commercial property in need of repair. These notes will be forgiven at the end of the Owner Participation Agreement term, which is five to fifteen years, if the property has not been sold. If the property is sold prior to the completion of the agreement term, a proportionate amount of the note will be forgiven. The notes are secured by a deed of trust on the property. At June 30, 2006, $271,240 in notes had been issued to thirteen property owners.

B. Employee Notes Receivable

All full-time and part-time City employees who have completed their probationary period are eligible to obtain an interest free loan of up to $2,500 to purchase a computer. All requests for loans are subject to review by the Information Technology Department and must be approved by the Human Resources Director. Repayment of these loans is handled through payroll deductions which are spread out equally over a two year period. Employees must pay off any outstanding balance on their loans upon ending employment with the City. As of June 30, 2006, 97 employees had $90,494 in notes due to the City.

C. Housing Rehabilitation and Affordable Housing Notes Receivable

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these loans and notes are expected to be repaid in full, their balance has been offset with the liability, Due to Other Governments, as they are not expected to be repaid during fiscal year 2007 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from these programs at June 30, 2006 was $4,929,514.

NOTE 5 - NOTES RECEIVABLE (Continued)

D. *First Time Home-Buyer Notes Receivable*

The City and the Agency engage in a first time home-buyer program designed to encourage home ownership among low income persons. Under this program, grants or loans are provided at no interest and are due upon sale or transfer of the property. These loans have been offset by due to other governments and deferred revenue as they are not expected to be repaid during fiscal year 2007 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from this program at June 30, 2006 was $4,985,338.

E. *Housing Elevation Notes Receivable*

In fiscal 1997, the Federal Emergency Management Agency (FEMA) approved Hazard Mitigation Grant Program funds to be used for residential home elevation projects in the City at a maximum of $33,934 per household, with the total federal share not to exceed $1,493,096. The City provides matching funds to each eligible household at a maximum of $5,000 in the form of a zero percent, deferred loan payable upon sale, change of title or change of use (See A. above). As of June 30, 2006, eleven loans funded through the FEMA Hazard Mitigation Grant Program were outstanding with a total balance of $28,978.

NOTE 6 - DEFERRED RECEIVABLES

The City has entered into a number of agreements with developers to defer permit fees for various projects within the City. The terms of these agreements call for various interest rates and payment dates. Although these fees are expected to be repaid in full, their balance has been offset by deferred revenue in governmental funds, as they are not expected to be repaid early enough to be treated as a current asset. The long-term portion of these receivables at June 30, 2006 was $2,809,105, which has been classified as deferred receivables, and the short-term portion of these receivables, which totaled $38,991 at June 30, 2006 is included in accounts receivable.

NOTE 7 – DEVELOPMENT AGREEMENTS AND LAND HELD FOR REDEVELOPMENT

The City may enter into development agreements in an effort to provide incentives to develop new businesses and new tax revenues. The substance of these agreements is that developers or other public agencies will be paid a portion of future sales tax or traffic mitigation fee revenues produced by their developments. These payments are conditioned on the generation of sales tax revenues or traffic mitigation fee revenues by these developments and the City is not required to use any other resources to pay these amounts.

A. *Galleria at Roseville*

In fiscal 2001, the City entered into a lease agreement with the Galleria at Roseville regional mall. The purpose of this agreement was to share revenue with the mall developers based on the generation of certain levels of sales tax. The Developer agreed to construct the mall, along with water and storm sewer mains, a bike trail, pedestrian walks, landscaping, parking areas and infrastructure improvements to surrounding streets. The mall opened for business in August 2000 and the term of the revenue sharing agreement commenced on that date. The remaining portion of sales tax revenues to be returned approximated $17 million at June 30, 2006. The agreement terminates in 2017, regardless of whether this amount has been returned; after that date all future sales tax revenues remain with the City. During fiscal year 2006 payments made to the developer under the agreement totaled $2,592,039.

NOTE 7 – DEVELOPMENT AGREEMENTS AND LAND HELD FOR REDEVELOPMENT (Continued)

B. Wal-Mart at Roseville

In fiscal year 2003, the City entered into a Wal-Mart Sales Tax Revenue Sharing Agreement with the City of Rocklin. The City agreed to share retail sales tax with the City of Rocklin after the retail sales commenced at the new Wal-Mart location in Roseville on October 28, 2003. The City will make certain sales tax revenue payments to Rocklin for thirty-six months from the day of the store opening which occurred in 2004. In addition, the City has the option to share sales tax revenue with City of Rocklin for an extended period of not more than 24 months. The City of Rocklin completed a final audit of the sales tax generated by the new tenant, and the final payment of approximately $450 thousand will be made in fiscal year 2007.

C. Civic Plaza Project

In fiscal 2004, the Agency agreed to sell four parcels of land to Vernon Street Associates, LLC for $150,000, for the purpose of the construction of an office complex and public parking garage. Two of the parcels were owned by the Agency and two by the City. The City parcels were conveyed to the Agency in fiscal 2006 and subsequently all four parcels were sold to the Developer. The office complex is being built on the land sold to the Developer and is funded by the Developer. The developer has agreed to construct the parking garage for the Agency funded by $5,817,000 of bond proceeds from the Agency's 2002 Tax Allocation Bonds, a $360,000 contribution from the Developer, and a $900,000 contribution from the General Fund. In addition, the Developer has agreed to contribute $20,000 annually, plus an inflationary escalator beginning in 2010, towards the maintenance and operation costs of the parking garage. The Agency anticipates increasing the project contract amount in fiscal 2007 by $2.2 million, funded by an additional $111,415 from the 2002 Tax Allocation Bonds and $2.1 million from the City's General Fund. Construction is expected to be completed in fiscal 2007.

D. Land held for redevelopment

In fiscal year 2006, the Agency purchased 238 Vernon Street in the amount of $1,002,290, which is being held for future development projects. This parcel is accounted for the lower of cost or net realizable value.

NOTE 8 – CAPITAL ASSETS

A. Policies

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City has recorded all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

Capital assets with limited useful lives are depreciated over their estimated useful lives. Alternatively, the "modified approach" is used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

NOTE 8 – CAPITAL ASSETS (Continued)

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives and capitalization thresholds listed below to capital assets:

	Useful lives	Capitalization Thresholds
Buildings	20-40 years	$10,000
Improvements	40 years	10,000
Machinery and Equipment	3-12 years	5,000
Bike Paths	20 years	10,000
Bridges	90 years	10,000
Culverts	75 years	10,000
Curb, Gutter, Sidewalks & Median Curbs	20 years	10,000
Drain Inlets	50 years	10,000
Flood Control Improvements	75 years	10,000
Soundwall	35 years	10,000
Stormdrains	75 years	10,000
Traffic Signals	20 years	10,000
Plants and Substations		
Electric	10-120 years	10,000
Sewer	15-60 years	10,000
Water	15-75 years	10,000
Electric Improvements:		
Electric	7-100 years	10,000
Sewer	75 years	10,000
Water	75 years	10,000

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 8 - CAPITAL ASSETS (Continued)

B. *Capital Asset Additions and Retirements*

Capital assets at June 30 comprise:

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Governmental activities					
Capital assets not being depreciated:					
Land	$22,062,494	$1,320,766	($799,729)		$22,583,531
Streets (modified)	159,271,316	1,801,626		$5,777,045	166,849,987
Parks (modified)	54,382,618	3,857,806		2,011,928	60,252,352
Landscaping (modified)	24,609,465	1,280,052		3,249,144	29,138,661
Construction in progress	63,420,753	89,090,501	(5,404,243)	(20,263,644)	126,843,367
Total capital assets not being depreciated	323,746,646	97,350,751	(6,203,972)	(9,225,527)	405,667,898
Capital assets being depreciated:					
Buildings	79,895,972				79,895,972
Improvements	4,259,672	487,706			4,747,378
Equipment	43,866,622	8,469,652	(655,386)	897,500	52,578,388
Bike paths	7,173,994	60,000			7,233,994
Bridges	45,570,000			1,020,903	46,590,903
Culverts	18,872,843	30,597		24,115	18,927,555
Curb, gutter, sidewalk, & median curbs	118,184,698	750,337		1,782,931	120,717,966
Drain inlets	18,175,850	11,591		705,864	18,893,305
Flood control improvements	15,567,227	811,593		914,126	17,292,946
Soundwall	18,302,112	737,487		2,323,877	21,363,476
Stormdrains	49,362,029	951,805		996,476	51,310,310
Traffic signals	18,655,503			264,966	18,920,469
Total capital assets being depreciated	437,886,522	12,310,768	(655,386)	8,930,758	458,472,662
Less accumulated depreciation for:					
Buildings	(27,641,123)	(1,964,768)			(29,605,891)
Improvements	(805,173)	(153,286)		31,793	(926,666)
Equipment	(29,739,457)	(4,399,463)	645,160	(13,353)	(33,507,113)
Bike paths	(3,259,863)	(358,921)			(3,618,784)
Bridges	(4,837,833)	(512,005)			(5,349,838)
Culverts	(3,153,509)	(252,003)			(3,405,512)
Curb, gutter, sidewalk, & median curbs	(65,474,801)	(4,878,772)			(70,353,573)
Drain inlets	(4,973,269)	(370,692)			(5,343,961)
Flood control improvements	(1,071,585)	(219,068)			(1,290,653)
Soundwall	(3,341,686)	(566,651)			(3,908,337)
Stormdrains	(7,361,622)	(671,149)			(8,032,771)
Traffic signals	(9,595,257)	(808,196)			(10,403,453)
Total accumulated depreciation	(161,255,178)	(15,154,974)	645,160	18,440	(175,746,552)
Net capital assets being depreciated	276,631,344	(2,844,206)	(10,226)	8,949,198	282,726,110
Governmental activity capital assets, net	$600,377,990	$94,506,545	($6,214,198)	($276,329)	$688,394,008

NOTE 8 - CAPITAL ASSETS (Continued)

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Business-type activities					
Capital assets, not being depreciated:					
Land	$16,060,224	$65,522			$16,125,746
Landscaping	550,000				550,000
Construction in progress	70,102,472	124,556,748	($26,028)	($31,221,683)	163,411,509
Total capital assets not being depreciated	86,712,696	124,622,270	(26,028)	(31,221,683)	180,087,255
Capital assets, being depreciated:					
Buildings	11,826,851	176,179			12,003,030
Improvements	10,760,868	35,182		239,049	11,035,099
Machinery and Equipment	15,166,665	1,275,459	(202,660)	(14,553)	16,224,909
Bike Paths	1,064,167				1,064,167
Drain Inlets	18,500				18,500
Storm Drains	30,863				30,863
Plant and Substations	270,887,289	2,521,151		9,915,763	283,324,200
Distribution	785,173,691	40,599,642	(686,344)	21,376,192	846,463,181
Total capital assets being depreciated	1,094,928,894	44,607,613	(889,004)	31,516,451	1,170,163,949
Less accumulated depreciation for:					
Buildings	(3,310,767)	(304,908)			(3,615,679)
Improvements	(2,710,064)	(259,713)		(3,428)	(2,973,205)
Machinery and Equipment	(6,367,627)	(1,867,914)	172,024	13,354	(8,050,163)
Bike Paths	(79,812)	(53,208)			(133,020)
Drain Inlets	(555)	(370)			(925)
Storm Drains	(618)	(412)			(1,030)
Plant and Substations	(42,798,874)	(6,643,086)			(49,441,960)
Distribution	(117,913,470)	(11,774,704)	102,076	(28,365)	(129,614,463)
Total accumulated depreciation	(173,181,787)	(20,904,315)	274,100	(18,439)	(193,830,445)
Net capital assets being depreciated	921,747,107	23,703,298	(614,904)	31,498,012	976,333,504
Business-type activity capital assets, net	$1,008,459,803	$148,325,568	($640,932)	$276,329	$1,156,420,759

NOTE 8 - CAPITAL ASSETS (Continued)

C. *Depreciation Allocation*

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities	
General government	$1,079,238
Community development and planning	159,624
Public works	8,889,175
Police	472,351
Fire	439,714
Library	123,320
Parks and recreation	392,928
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	3,598,624
Total Governmental Activities	$15,154,974
Business-Type Activities	
Electric	$5,016,959
Water	5,413,630
Wastewater	9,011,997
Solid Waste	268,015
Golf Course	395,336
Local Transportation	783,855
School-age Child Care	14,523
Total Business-Type Activities	$20,904,315

D. *Streets, Parks and Landscaping Covered By The Modified Approach*

The City has elected to use the modified approach discussed above with respect to its roads, most of which are relatively new. The City's policy based on current funding is to maintain the arterial and collector roadways at an average Pavement Quality Index (PQI) of 7.5 and residential roadways at an average PQI of 6.5, instead of providing depreciation. During fiscal 2006 the City expended $7,213,261 to preserve its roads. The City estimates that it will be required to expend approximately $5,521,428 in fiscal 2007 to maintain its roads at this condition level.

The City has also elected to use the modified approach with respect to its parks and landscaping, most of which are relatively new. The City's policy based on current funding is to maintain the parks and landscape at an average Ground Management Index (GMI) of Level 2, instead of providing depreciation. During fiscal 2006 the City expended $4,309,606 to preserve its parks and landscaping. The City estimates that it will be required to expend approximately $5,111,124 in fiscal 2007 to maintain its parks at this condition level.

NOTE 9 - LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt.

A. *Current Year Transactions and Balances*

	Original Issue Amount	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Governmental Activity Debt:						
Certificates of Participation:						
2003A Public Facilities Refunding Bond, 2.0%-5.0%, due 8/1/25	$18,275,000	$17,710,000		$605,000	$17,105,000	$615,000
Tax Allocation Bonds						
2002 Roseville Redevelopment Project 3%-5.14%, due 9/1/33	14,500,000	13,960,000		225,000	13,735,000	275,000
Installment Purchase Obligations:						
Equipment	3,351,714	306,140	$2,239,765	108,919	2,436,986	256,415
Other Long Term Obligations:						
Foothill Blvd. Extension, due 4/1/07	114,423	6,250		3,027	3,223	3,223
Total Governmental Activity Debt:	$36,241,137	$31,982,390	$2,239,765	$941,946	$33,280,209	$1,149,638
Business-type Activity Debt:						
Certificates of Participation:						
1997 Electric System Revenue, 3.6%-5.25%, due 2/1/17	$11,880,000	$635,000		$310,000	$325,000	$325,000
1999 Electric System Revenue, 4.0%-5.5%, due 2/1/24	21,630,000	2,135,000		500,000	1,635,000	520,000
2002 Electric System Revenue, variable rate, due 2/1/24	40,385,000	30,980,000		5,360,000	25,620,000	225,000
Less deferred amount on refunding	(3,780,476)	(3,264,957)		(171,839)	(3,093,118)	
2004 Electric System Revenue, 3.00%-5.25%, due 2/1/34	39,940,000	39,940,000			39,940,000	330,000
2005 Electric System Revenue, Series A 3.00%-5.00%, due 2/1/23	52,900,000	52,900,000			52,900,000	
2005 Electric System Revenue, Series B variable rate, due 2/1/35	90,000,000	90,000,000			90,000,000	
2005 Electric System Revenue, Series C variable rate, due 2/1/35	60,000,000	60,000,000			60,000,000	
2003B Golf Course Refunding Bond, 2.0%-5.0%, due 8/1/23	8,240,000	7,945,000		315,000	7,630,000	320,000
1997 Water Utility Revenue, 3.9%-5.2%, due 12/1/18	33,000,000	26,075,000		1,335,000	24,740,000	1,395,000
Total Certificates of Participation	354,194,524	307,345,043		7,648,161	299,696,882	3,115,000
Revenue Bonds:						
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/27	59,465,118	8,924,501		1,337,999	7,586,502	1,394,878
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	37,919,000	37,919,000			37,919,000	
2003 Wastewater Refunding Revenue Bonds, variable rate, due 11/1/27	52,544,900	51,353,167		338,563	51,014,604	352,105
Less deferred amount on refunding	(6,333,890)	(5,806,065)		(263,921)	(5,542,144)	
Total Revenue Bonds	143,595,128	92,390,603		1,412,641	90,977,962	1,746,983
Other Long Term Obligations:						
Notes, 5%, due 10/1/17	333,108	182,351		10,295	172,056	10,810
Total Business-type Activity Debt:	$498,122,760	$399,917,997		$9,071,097	$390,846,900	$4,872,793

NOTE 9 - LONG-TERM DEBT (Continued)

B. 2003A Public Facilities Refunding Bonds

On July 17, 2003 the City issued $18,275,000 of Public Facilities Refunding COPs to advance refund the outstanding 1993 Public Facilities COP's. The COP's are repayable from the any source of available funds of the City which includes the General Fund. Principal payments are payable annually and interest payments are due semi-annually on February 1 and August 1 through 2025.

C. 2002 Roseville Redevelopment Project Tax Allocation Bonds

On October 23, 2002 the Redevelopment Agency issued Tax Allocation Bonds in the original principal amount of $14,500,000 to fund certain redevelopment activities of benefit to property within the Agency's Roseville Redevelopment Project Area. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenue. Principal payments are payable annually on September 1 and interest payments are due semi-annually on March 1 and September 1, through September 1, 2033.

D. Installment Purchase Obligations

The City is purchasing various pieces of computer equipment on the installment basis. The City has also entered into long-term contracts for the lease/purchase of various public safety equipment.

E. Foothill Blvd. Extension

The City acquired several parcels of land, in August of 1989, within the Foothill Boulevard Extension Assessment District to build the Corporation Yard. Upon acquisition, the City took over the assessment debt in the amount of $114,423, due on these parcels. Principal and interest payments are payable annually on April 1, through April 1, 2007.

F. 1997 Electric System Revenue Certificates of Participation

The City issued Certificates of Participation in the original principal amount of $11,880,000 on November 1, 1997 to finance a substation for the Electrical System and to refinance its' 1985 COP's and is repayable from net revenue of the Electric Utility System. Principal payments are payable annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2017.

In December of 2002 the City defeased a portion of the 1997 COP's by placing proceeds from the 2002 Electric System Revenue Certificates of Participation in an irrevocable trust to provide amounts sufficient to pay on February 1, 2008 the prepayment price of 101% of the principal amount and accrued interest. Accordingly, the trust account assets and the liability for the defeased COP's are not included in the financial statements. At June 30, 2006 the 1997 Electric System Revenue Certificates of Participation outstanding in the amount of $4,290,000 are considered defeased.

NOTE 9 - LONG-TERM DEBT (Continued)

G. *1999 Electric System Revenue Certificates of Participation*

On August 3, 1999, the City issued $21,630,000 of Certificates of Participation to finance a portion of the cost of capital improvements and is repayable from net revenue of the Electric Utility System. The Certificates bear interest at 4.0% - 5.5% and are due semi-annually on February 1 and August 1. Principal payments are due annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2024.

In December of 2002 the City defeased a portion of the 1999 COP's by placing proceeds from the 2002 Electric System Revenue Certificates of Participation in an irrevocable trust to provide amounts sufficient to pay on August 1, 2009 the prepayment price of 101% of the principal amount and accrued interest. Accordingly, the trust account assets and the liability for the defeased COP's are not included in the financial statements. At June 30, 2006 the 1999 Electric System Revenue Certificates of Participation outstanding in the amount of $17,685,000 are considered defeased.

H. *2002 Electric System Revenue Certificates of Participation*

On December 17, 2002 the City issued $40,385,000 of Certificates of Participation to defease portions of the 1997 and 1999 Electric System Revenue Certificates of Participation above and finance a portion of the cost of capital improvements. The COP's are repayable from net revenue of the Electric Utility System. Principal Payments are due annually in two installments on January 1 and February 1 in fiscal years ending June 30, 2003 through June 30, 2006. The remaining principal payments are due annually on February 1 and interest payments are due monthly, through February 1, 2024.

The 2002 Electric System Revenue Certificates of Participation were issued as variable rate COP's, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the City entered into a 22-year interest rate swap agreement for the entire amount of its 2002 Electric System Revenue Certificates of Participation as discussed in P. below. The combination of the variable rate COPs and a floating rate swap creates synthetic fixed-rate debt for the City. The synthetic fixed rate for the COPs was 2.99% at June 30, 2006.

I. *2004 Electric System Revenue Certificates of Participation*

On July 1, 2004 the City issued $39,940,000 of Certificates of Participation to finance capital improvements to the City's Electric System. The COP's are repayable from net revenue of the Electric Utility System. The COPs bear interest at 3.00%-5.25% and are due semi-annually on February 1 and August 1 of each year beginning February 1, 2005. Principal payments are due annually on February 1 beginning February 1, 2007.

NOTE 9 - LONG-TERM DEBT (Continued)

J. *2005 Electric System Revenue Certificates of Participation, Series A; 2005 Electric System Revenue Certificates of Participation, Series B; and 2005 Electric System Variable Rate Revenue Certificates of Participation, Series C;*

On May 26, 2005 the City issued Certificates of Participation Series A, Series B, and Series C in the original principal amounts of $52,900,000, $90,000,000, and $60,000,000 respectively, to finance certain Electric System improvements, primarily including construction of the Roseville Energy Park.

The Series A COPs bear interest at 3.00%-5.00% and are due semi-annually on February 1 and August 1 of each year beginning February 1, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2023.

The Series B COPs were issued as auction rate securities with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the City entered into a 30-year interest rate swap agreement for the entire amount of the Series B COPs as discussed in P. below. The combination of the variable rate Series B COPs and a floating rate swap creates synthetic fixed-rate debt for the City. The synthetic fixed rate for the Series B COPs was 3.19% at June 30, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2035.

The Series C were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. Interest payments are due semi-annually on February 1 and August 1 of each year beginning February 1, 2006. Principal payments are due annually on February 1 beginning February 1, 2008 through 2035.

K. *2003B Golf Course Refunding Certificates of Participation*

On July 17, 2003 the City issued $8,240,000 of Golf Course Refunding COPs, the proceeds of which are to be used to advance refund the outstanding 1993 Golf Course COP's. The COP's are repayable from the any source of available funds of the City which includes the General Fund. Principal and interest payments are due annually on August 1 through 2025.

L. *1997 Water Utility Revenue Certificates of Participation*

The City issued Certificates of Participation in the original principal amount of $33,000,000 on September 1, 1997 to finance the acquisition, construction, and installation of additions to the water utility system, and is repayable from net revenue from the Water Utility System. Principal payments are payable annually on December 1 and interest payments are due semi-annually on December 1 and June 1, through December 1, 2018.

NOTE 9 - LONG-TERM DEBT (Continued)

M. *2000 South Placer Wastewater Authority Wastewater Revenue Bonds, Series A; and 2000 South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B*

In November 2000, the South Placer Wastewater Authority issued Revenue Bonds Series A and Series B in the original principal amounts of $109,775,000 and $70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. Upon completion, this Plant will benefit the City of Roseville, the South Placer Municipal Utility District, and the County of Placer. These three entities in return share the obligation of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements.

The South Placer Wastewater Authority Wastewater Revenue Bonds, Series A were issued as fixed rate bonds. On September 17, 2003, $84,525,000 of the Series A Bonds were defeased by the 2003 Wastewater Refunding Revenue Bonds as mentioned below. Remaining principal payments are payable annually on November 1 and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027. At June 30, 2006 the outstanding balance of the defeased portion of the Series A Bonds was $84,525,000.

The South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. The average monthly interest paid in fiscal year 2006 was $172,905. Beginning in fiscal year 2029, principal payments will be made in addition to the variable interest payments.

N. *2003 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds*

On September 17, 2003 the South Placer Wastewater Authority issued $97,000,000 of Refunding Wastewater Revenue Bonds to defease a portion of the Series A Wastewater Revenue Bonds, as discussed above. The City's share of this obligation was determined to be 54.17%. These proceeds were placed in an irrevocable trust to provide for all future debt service payments on the Refunded Bonds. Principal and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027.

The 2003 Wastewater Refunding Revenue Bonds were issued as auction rate bonds with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. However, the Authority entered into a 24-year interest rate swap agreement for the entire amount of its 2003 Refunding Revenue bonds as discussed in P. below. The combination of the variable rate Bonds and a floating rate swap creates synthetic fixed-rate debt for the Authority. The synthetic fixed rate for the Bonds was 3.55% at June 30, 2006.

O. *Notes Payable*

The City borrowed $333,108 original principal amount, on November 9, 1977, from the U. S. Department of Commerce to aid in financing drought emergency projects. The debt is repayable from the surplus revenue account of the Water Revenue Bonds. Principal and interest payments are payable annually on October 1, through October 1, 2017.

NOTE 9 - LONG-TERM DEBT (Continued)

P. *Interest Rate Swap Agreements*

The City entered into interest swap agreements in connection with the 2002 Electric System Revenue Certificates of Participation and the 2005 Electric Revenue Certificates of Participation, Series B. The City has a 54.17% interest in the Authority which entered into an interest swap agreement in connection with the 2003 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds.

These transactions allow the City to create synthetic fixed rates on the COPs and Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreements are disclosed below.

Terms. The terms, including the counterparty credit ratings of the outstanding swaps, as of June 30, 2006, are included below. The swap agreements contain scheduled reductions to the outstanding notional amount that are expected to follow scheduled reductions in the associated bond issues.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Credit Rating	Fixed Rate Paid	Variable Rate Received	Termination Date
2002 Electric System Revenue COP	$25,620,000	12/18/2002	Morgan Stanley Capital Services Inc.	A+	2.980%	62% of 30-day LIBOR	2/1/2024
2005 Electric System Revenue COP, Series B	36,000,000	6/30/2005	Bear Stearns Financial Products Inc.	AAA	3.613%	70.5% of 30-day LIBOR	2/1/2035
2005 Electric System Revenue COP, Series B	54,000,000	6/30/2005	Morgan Stanley Capital Services Inc.	A+	3.613%	70.5% of 30-day LIBOR	2/1/2035
2003 Wastewater Refunding Revenue Bonds (City portion)	51,014,604 (A)	9/17/2003	Morgan Stanley Capital Services Inc.	A+	3.433%	62% of 30-day LIBOR	11/1/2027
	$166,634,604						

(A) The Authority's swap agreement is based on the notional amount of $94,175,000 equivalent to the outstanding balance on the 2000B Bonds. The City's share of these underlying Bonds is 54.17%, or $51,014,604. Only the City's portion of the swap agreement is shown above, since the City is only obligated for that portion of the Authority's bonds.

Based on the swap agreements, the City owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the City interest based on the variable rate that approximates the rate required by the associated COPs and Bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

NOTE 9 - LONG-TERM DEBT (Continued)

Fair value. Fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by each swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. As of June 30, 2006, the fair value of the swaps were in favor of the City as follows:

Related Bond Issue	Fair Value
2002 Electric System Revenue COP	$1,003,562
2005 Electric System Revenue COP, Series	
Bear Stearns Financial Products Inc.	1,961,741
Morgan Stanley Capital Services Inc.	3,045,127
2003B Wastewater System Refunding Revenue Bonds	511,220 (A)
	$6,521,650

(A) The fair value of the Authority 's swap agreement was $946,704. The City's share is 54.17% or $511,220.

Credit risk. As of June 30, 2006, the City was exposed to credit risk on the outstanding swaps because the swaps had positive fair values. These amounts may increase if interest rates increase in the future. However, if interest rates decline and fair values of the swaps were to become negative, the City would no longer be exposed to credit risk. The City will be exposed to interest rate risk only if a counterparty to a swap defaults or if the swap is terminated.

Basis risk. Basis risk is the risk that the interest rate paid by the City on the underlying variable rate bonds to the bondholders temporarily differs from the variable swap rates received from the applicable counterparty. The City bears basis risk on the swaps. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rates the City pays on the underlying COPs and Bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

NOTE 9 - LONG-TERM DEBT (Continued)

Termination risk. The City may terminate if the other party fails to perform under the terms of the contract. The City will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2006, debt service requirements of the City's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at Q:

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest	Interest	
2007	$577,105	$5,538,881	($102,625)	$6,013,361
2008	940,648	5,514,366	(102,101)	6,352,913
2009	974,190	5,482,377	(100,858)	6,355,709
2010	1,612,733	5,440,949	(98,954)	6,954,728
2011	1,666,275	5,386,478	(95,748)	6,957,005
2012-2016	18,454,041	25,234,450	(461,662)	43,226,829
2017-2021	21,975,638	21,835,534	(437,944)	43,373,228
2022-2026	45,635,596	17,084,701	(395,396)	62,324,901
2027-2031	41,998,375	12,117,404	(403,377)	53,712,402
2032-2036	32,800,000	7,628,156	(279,954)	40,148,202
	$166,634,601	$111,263,296	($2,478,619)	$275,419,278

Q. *Debt Service Requirements*

Annual debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	$1,149,638	$1,436,135	$4,872,793	$15,324,484
2008	1,126,997	1,421,673	6,068,755	15,120,543
2009	1,118,157	1,387,311	7,275,160	14,900,219
2010	1,126,019	1,349,838	8,499,303	14,641,478
2011	1,155,813	1,310,437	10,436,183	14,369,851
2012-2016	6,470,133	5,858,137	58,880,278	66,086,933
2017-2021	7,163,452	4,372,673	66,706,723	54,386,392
2022-2026	8,515,000	2,468,625	71,170,596	43,127,820
2027-2031	3,605,000	931,125	83,972,083	34,057,185
2032-2036	1,850,000	104,000	81,600,288	19,126,221
Total	$33,280,209	$20,639,954	399,482,162	$291,141,126
Reconciliation of long-term debt				
Less deferred amount on refunding			(8,635,262)	
Net long-term debt			$390,846,900	

NOTE 10 – DEBT WITHOUT CITY COMMITMENT

A. *Special Assessment Districts*

Special Assessment Districts, including Mello Roos Districts, in various parts of the City have issued debt to finance infrastructure improvements and facilities within their boundaries. The City is the collecting and paying agent for the debt issued by these Districts, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not recorded as long-term debt of the City. The outstanding balance of each of these issues as of June 30, 2006 is as follows:

North Roseville-Rocklin Sewer Refunding District	$555,000
Foothills Boulevard Extension Assessment District	850,000
Northeast Roseville Community Facilities District #1 & #2	16,900,000
North Roseville Community Facilities District #1	21,720,000
North Central Roseville Community Facilities District #1	41,575,000
Northwest Roseville Community Facilities District #1	25,010,000
Woodcreek West Community Facilities District #1, Series 2005	20,440,000
Stoneridge Parcel 1 Community Facilities District #1	1,865,000
Stoneridge East Community Facilities District # 1	15,080,000
Stoneridge West Community Facilities District # 1	12,085,000
Crocker Ranch Community Facilities District # 1, Series 2002	4,325,000
Crocker Ranch Community Facilities District # 1, Series 2003	14,980,000
Stone Point Community Facilities District # 1	11,030,000
Fiddyment Ranch Community Facilities District # 1	37,350,000
Longmeadow Parkside Community Facilities District # 1	9,165,000
Westpark Community Facilities District # 1	57,905,000
Roseville Finance Authority Revenue Bonds, Series 2006 A and B	40,515,000
Total	$331,350,000

In March 2006, the City issued the Highland Reserve North Community Facilities District Bonds (HRN Bonds) in the principal amount of $33,120,000 and the Woodcreek East Community Facilities District Bonds (WEC Bonds) in the principal amount of $6,245,000, to refinance the Highland Reserve North Community Facilities District #1, Series 1999, and the Woodcreek East Community Facilities District #1, Series 2000, Bonds, respectively. Also in March 2006, the Roseville Finance Authority (RFA) issued $40,515,000 principal amount of Revenue Bonds. Proceeds from the Revenue Bonds were used by a Trustee to purchase the HRN Bonds and the WEC Bonds which are held as investments ($36,365,000 as of June 30, 2006) and collateral for the repayment of the Revenue Bonds. District property owners pay assessments on their property under the respective HRN and WEC Bond indentures to the Trustee as owner of the HRN and WEC Bonds. The Trustee then uses these assessments to pay debt service on the Revenue Bonds. Neither the faith and credit nor the general taxing power of the City of Roseville have been pledged to the payment of the Bonds. Therefore, the investment and the Bonds have not been included in the accompanying financial statements.

NOTE 11 – NET ASSETS AND FUND BALANCES

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in capital assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects (expended) or contributions received in permanent funds (unexpended), debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balances, Reserves and Designations

In the Fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

C. Reserves

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity, which provided the funds. The City cannot modify or remove these restrictions or reserves. At June 30, 2006, reservations included:

Reserves for **advances, inventories, deferred receivables and notes receivable, and prepaids** are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **capital projects** is the portion of fund balance to be used for projects approved by the Council.

Reserve for **low and moderate income housing** is the portion of redevelopment fund balance legally required to be set-aside for low and moderate income housing expenditures.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long-term liabilities.

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

D. *Designations*

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period. Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

Designated for economic reserve is the portion of fund balance which represents 10% of the original adopted operating expenditure budget to be used in the event of fiscal need.

Designated for carryover of capital improvement projects is the portion of fund balance to be used for approved capital projects.

E. *Fund Balance and Net Assets Deficits*

The Roseville Aquatics Complex Maintenance Permanent and Automotive Services Internal Service Funds had deficit fund balances at June 30, 2006 in the amounts of $1,786 and $108,532, respectively. Future revenues are expected to offset these deficits.

NOTE 12 - PENSION PLAN

CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service; one year of credited service is equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2006, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	55
Monthly benefits, as a % of annual salary	3%	2.7.%
Required employee contribution rates	9%	8%
Required employer contribution rates	27.929%	17.057%
Actuarially required contributions	$4,360,965	$9,840,595

The City's labor contracts require it to pay employee contributions as well as its own.

NOTE 12 - PENSION PLAN (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2006, 2005 and 2004 amounted to $14,201,560, $16,350,444 and $12,344,738 respectively. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plans' actuarial value (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

Safety Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
2003	$71,045,091	$59,434,080	$11,611,011	83.7%	$11,047,254	105.103%
2004	80,707,509	66,152,912	14,554,597	82.0%	12,799,408	113.713%
2005	97,938,304	75,260,002	22,678,302	76.8%	15,457,592	146.700%

Miscellaneous Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
2003	$144,786,456	$111,129,154	$33,657,302	76.8%	$42,975,594	78.317%
2004	166,048,078	124,996,283	41,051,795	75.3%	46,309,329	88.647%
2005	194,259,046	145,741,567	48,517,479	75.0%	52,630,299	92.200%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 13 - RISK MANAGEMENT

The City manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below and by retaining certain risks. The City maintains insurance coverage from a commercial carrier for its long-term disability and dental benefit plan.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member agencies. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

A. Risk Coverage

The City is a member of the California Joint Powers Risk Management Authority (CJPRMA) which covers general liability claims up to $40,000,000, property damage up to $5,000,000, and boiler and machinery up to $21,250,000. The City has a self-insured retention or deductible of $500,000, $25,000, and $5,000, respectively, per claim. Once the City's self-insured retention for general liability claims is met, CJPRMA becomes responsible for payment of all claims up to the limit. CJPRMA has purchased commercial insurance against property damage and boiler and machinery claims. During the fiscal year ended June 30, 2006, the City contributed $1,221,987 for coverage during the current year and received a refund of $166,290 of prior year excess contributions.

The City is also a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX), which covers workers' compensation claims up to $1,750,000 and provides additional coverage up to $146,000,000. The City has a self-insured retention of up to $250,000 per claim. During the fiscal year ended June 30, 2006, the City contributed $590,075 for current year coverage.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Financial statements for the risk pools may be obtained from CJPRMA, 2333 San Ramon Valley Blvd., Suite 250, San Ramon, CA 94583 and LAWCX, c/o James P. Marta, CPA, 5921 Landis Avenue, Suite 1, Carmichael, CA 95608.

B. Insurance Internal Service Funds

The Governmental Accounting Standards Board (GASB) requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

NOTE 13 - RISK MANAGEMENT (Continued)

The change in the Worker's Compensation Internal Service Fund's claims liability, including claims incurred but not reported is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	2006	2005
Claims liability, beginning of year	$5,432,000	$5,118,000
Current year claims	2,000,000	1,600,000
Change in prior year claims	(477,000)	(543,000)
Claims paid, current year claims	(330,000)	(206,000)
Claims paid, prior year claims	(81,000)	(537,000)
Claims liability, end of year	$6,544,000	$5,432,000
Due in one year	$577,000	$411,000

The City's liability for uninsured general liability claims, including claims incurred but not reported is reported in the General Liability Internal Service Fund. The liability is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	2006	2005
Claims liability, beginning of year	$2,043,000	$1,835,000
Current year claims	1,200,000	750,000
Change in prior year claims	(1,199,000)	1,329,000
Claims paid, current year claims	(85,000)	(106,000)
Claims paid, prior year claims	(33,000)	(1,765,000)
Claims liability, end of year	$1,926,000	$2,043,000
Due in one year	$994,500	$118,000

The Unemployment Reserve and Vision Internal Service Funds had no outstanding claims liability at June 30, 2006.

NOTE 14 - PREPAID PURCHASED ELECTRICITY

During fiscal 1999 the City paid $6,138,335 to the Northern California Power Agency (NCPA) (see Note 15) as a capital contribution for the Geothermal and Hydroelectric Projects debt refinancing. This contribution has been capitalized on the City's balance sheet and will be amortized in conjunction with the related debt service savings. The amount amortized for fiscal year 2006 was $210,350.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA)

A. General

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

The City is a member of NCPA, a joint powers agency which operates under a joint powers agreement among twenty-one public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities, and to optimize the use of those facilities and the members position in the industry. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and certain members have entered into take-or-pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.

The City receives no income from NCPA, and does not participate in all of its projects. Further, NCPA does not measure or determine The City's equity in NCPA as a whole. NCPA reports only The City's share of its General Operating Reserve, comprised of cash and investments, and The City's share of those Projects in which The City is a participant. These amounts are reflected in the financial statements as Investment in NCPA Reserve.

During the year ended June 30, 2006, the City incurred expenses totaling $17,079,776 for purchased power and assessments and prepaid assets paid to NCPA.

The City's interest in certain NCPA Projects and Reserve, as computed by NCPA using unaudited information, is set forth below.

	June 30, 2006
General Operating Reserve (including advances)	$9,749,631
Associated Member Services (including advances)	722,580
Undivided equity interest, at cost, in certain NCPA Power Projects:	
Geothermal Projects	406,675
Calaveras Hydroelectric Project	511,224
Combustion Turbine Project No. 1	63,903
Geothermal Public Power Line	Nil
Combustion Turbine Project No. 2	554,480
Graeagle Hydroelectric Project	Nil
	$12,008,493

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

The General Operating Reserve represents the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

B. Projects

Geothermal Projects

A purchased power agreement with NCPA obligates the City for 7.880% of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam powered generating plants, Plant Number 1 and Plant Number 2.

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. NCPA has continued to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and has evaluated a number of alternatives to increase water reinjection at strategic locations. NCPA, together with other steam developers and the Lake County Sanitation District, has completed the construction of a wastewater pipeline project that greatly increased the amount of water available for reinjection.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District have constructed a wastewater pipeline project that greatly increased the amount of water available for reinjection.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

Based on an internal assessment of the melded costs of power from the Geothermal Project and all other resources available to the members, NCPA believes its members will continue to be able to operate their electric utilities on a competitive basis, when compared to local investor-owned utility rates, while meeting all electric system obligations including those to NCPA. In January 1996, NCPA issued $167,940,000 (1996 Refunding Series B), and $5,420,000 (1996 Taxable Series C) in variable rate revenue bonds, the proceeds of which were used to refund a portion of the 1987 Refunding Series A Revenue Bonds. In August 1998, NCPA remarketed $121,590,000 (1996 Refunding Series A) of revenue bonds changing the interest rate from a weekly interest rate to a long term rate. The City is obligated to pay its contractual share of the debt until it is fully satisfied, regardless of resulting cost or availability of energy. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $164,647,974, while its long-term debt totaled $125,259,152 and other liabilities totaled $39,388,822. The City's share of the Project's long-term debt amounted to $9,870,421 at that date.

On October 28, 2004 NCPA approved a resolution to finance the expansion and remodeling of NCPA main office building located in Roseville. The expansion is included as part of the Geothermal Projects funded by the bonds mentioned above. The City will recover its 7.880% share of the cost of the expansion which was $204,958, with a 5% return on the investment over a ten year period. As of June 30, 2006 the City was owed $192,879.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 12% of this Project's debt service and operating costs. On April 16, 2002, NCPA completed the $86,620,000 refunding of revenue bonds at a weekly variable interest rate, initially set at 5.097%, and a net present value savings of $10,160,431. During fiscal year 2002 the City paid $11.6 million to NCPA for its share of refunding the 1992 Refunding Series A Bonds and costs of issuance related to the 2002 Refunding Series A, B and C Bonds. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $511,981,096 while its long-term debt totaled $487,145,361 and other liabilities totaled $24,835,735. The City's share of the Project's long-term debt amounted to $58,457,443 at that date.

Combustion Turbine Project No. 1

In October 1984, NCPA financed a five-unit, 125-megawatt combustion turbine project. The project, built in three member cities, began full commercial operation in June 1986, providing reserve and peaking power. In December 1989, NCPA issued $68,958,257 in fixed rate revenue bonds, the proceeds of which were used to defease the bonds then outstanding. Under the NCPA power purchase agreement, the City is obligated to pay 13.5840% of this Project's debt service and operating costs. At June 30, 2006, the book value of this Project's plant, equipment and other assets was $21,066,765, while its long-term debt totaled $18,661,892 and other liabilities totaled $2,404,870. The City's share of the Project's long-term debt amounted to $2,534,285 at that date.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

Geothermal Public Power Line

In 1983, NCPA, Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line (GPPL) which would carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners could receive it for transmission to their load centers. NCPA has an 18.5% share of this Project and the City has a 14.1756% participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in the Geysers. However, because the project financing provided funding for an ownership interest in a PG&E transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued $16,000,000 in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 14.1756% share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 2006, the book value of this Project's plant, equipment and other assets was $4,107,495, while its long-term debt totaled $4,047,104 and other liabilities totaled $60,391. The City's share of the Project's long-term debt amounted to $573,879 at that date.

Combustion Turbine Project No. 2 (Steam Injected Gas Turbine Project)

The City is a participant in a 49.8 megawatt Steam Injected Gas Turbine project which was built under turnkey contract near the City of Lodi and declared substantially complete on April 23, 1996. In October 1992, NCPA issued $152,320,000 of Multiple Capital Facilities Revenue Bonds to finance this project, a similar project for the Turlock Irrigation District in Ceres, and Lodi system facilities. Under the NCPA power purchase agreement, the City is obligated to pay 36.50% of the debt service and operating costs for the Lodi unit.

The City's participation in procurement of natural gas for fuel for existing and new combustion turbine units was approved in 1993. Although there is currently no additional debt financing, the City and NCPA have committed to long-term payments for gas transmission pipeline capacity, and entered a purchase contract for natural gas. The City is obligated to pay 17.9218%.

At June 30, 2006, the book value of this Project's plant, equipment and other assets was $68,829,566, while its long-term debt totaled $65,885,524 and other liabilities totaled $2,944,042. The City's share of the Project's long-term debt amounted to $24,048,216 at that date.

Graeagle Hydroelectric Project

The City's participation in this small hydroelectric project was approved in 1993. Although this project does not involve any financing, it does involve a long-term contractual commitment to purchase the power produced by the project.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

C. *Provision for Disputed SCS Charges*

In November 1999, PG&E filed with FERC its Schedule Coordination Services (SCS) Tariff, alleging that PG&E was entitled to collect from Roseville and other users certain costs imposed by the ISO on PG&E for the period April 1998 to August 2002. In June 2004, PG&E began billing NCPA for these costs, and NCPA, in turn, began billing its members, including Roseville. These costs, which were billed over a twelve-month period, accumulated to approximately $7.4 million, including interest, and were subject to a final determination by the FERC of the amount actually owed. Roseville maintained its position that PG&E had no legal or factual basis for its proposed tariff, and continued to vigorously contest this charge. In fiscal year 2006, the dispute was settled. PG&E returned funds paid by NCPA in excess of the settlement agreement and Roseville's share was $7,933,292 which was added to the General Operating Reserve.

D. *NCPA Financial Information*

NCPA's financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

NOTE 16 – SOUTH PLACER WASTEWATER AUTHORITY

The City is a member of the South Placer Wastewater Authority (SPWA), a joint powers agency which operates under a joint powers agreement among three public agencies, the City of Roseville, South Placer Municipal Utility District and Placer County. The purpose of SPWA is to provide for the planning, financing, acquisition, ownership, construction and operation of the Regional Wastewater Facilities.

Under the terms of a funding agreement, the City will own and operate the Regional Wastewater Facilities. Under the terms of this agreement the member agencies will share the operating costs of the Facilities after construction is complete. The Regional Wastewater Facilities include the Dry Creek Plant and the Pleasant Grove Plant. In November 2000, the SPWA issued Revenue Bonds Series A and Series B in the original principal amounts of $109,775,000 and $70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. On September 2003, the SPWA issued Refunding Revenue Bonds in the original principal amounts of $97,000,000. The purpose of these bonds is to advance refund the 2000 Revenue Bonds Series A. The three agencies are responsible for the repayment of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements, as discussed in Note 9.

During the year ended June 30, 2006, the City paid $5,156,127 to SPWA based on connection fees collected during the fiscal year.

The City records its share of income and expenses from SPWA in the Wastewater Enterprise Fund and these changes are reflected in the Statement of Revenues, Expenses and Changes in Retained Earnings. The City's Interest in SPWA Reserves at June 30, 2006 was $111,170,459.

SPWA's financial statements can be obtained from the City of Roseville, 311 Vernon Street, Roseville, California, 95678.

NOTE 17 - MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions at the Roseville sanitary landfill site, which is closed, through the year 2024. Accordingly, the City has recorded a liability and expense in the Enterprise Solid Waste Fund for the estimated postclosure care cost. The recorded amount is based on applicable state and local laws and regulations concerning closure and postclosure care. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users or the usage of future tax revenues. As of June 30, 2006, landfill closure liability was $3,678,093.

NOTE 18 – COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of its NCPA joint venture agreement, the City is contingently liable for a portion of the bonded indebtedness issued by these agencies under take-or-pay or similar agreements, as discussed in Note 15. The City's estimated share of such debt outstanding at June 30, 2006 was $95,484,244. Under certain circumstances, the City may also be responsible for a portion of the costs of operating these entities. Under certain circumstances, such as default or bankruptcy of other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of the other participants.

The City participates in Federal and State grant programs. These programs have been audited through the fiscal year ended June 30, 2006 by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, other than disclosed above, which is likely to have a material adverse effect on the financial position of the City.

On March 3, 1999 the City entered into an agreement with the State of California, acting by and through its Department of Transportation (CalTrans) to modify the interchange on Route 80 at Douglas Boulevard. The City is responsible for all costs in excess of original cost of construction. As of June 30, 2006, the project is complete, but the City has not yet been billed by CalTrans. The City estimates that its share of the project will be $500 thousand payable to CalTrans for construction, construction engineering, and construction management.

NOTE 18 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

On September 30, 2005 the City signed a Lease and Sublease Agreement with Roseville Investments, LLC for the development of two hotels and a conference center within the North Central Roseville Specific Plan Area. According to the terms of the Agreement, the City will lease the property in an aggregate amount of $10 million from the Developer. The City will advance the lease payments for the public improvements at the site. The Developer will then sublease the public improvements from the City commencing upon the issuance of a certificate of occupancy for the first hotel for a term of ten years. At the end of the 10-year period, the Developer is required to make a balloon payment for any remaining rental payments up to the $10 million.

Construction and Other Commitments

The City has the following outstanding construction commitments at June 30, 2006:

Projects	Amounts
Roseville Energy Park	$42,404,175
WTP Expansion Phase III	26,772,889
Mahany Library	9,524,682
Antelope/PFE Pipeline	4,828,966
Reserve Drive Extension	4,490,530
Re Operation Center	3,879,085
Fire Station #7	3,087,681
William Hughes Park	1,421,270
Blue Oaks Substation	1,248,739
Antelope Creek Bike Trail	1,059,407
Downtown Vernon Specific Plan	732,523
WestPlan Substation	535,178
12KV OH/UG Conversion	514,481

NOTE 19 - TAX INCREMENT SHIFT TO EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

The State of California directed that a portion of the incremental property taxes which had been received in prior years by redevelopment agencies be paid instead to local educational agencies. During the fiscal year ended June 30, 2006, the Agency paid $323,743 as a result of the State directive.

NOTE 20-SUBSEQUENT EVENTS

Effective July 1, 2006, the City contracted with ACES Power Marketing (APM) to provide scheduling services for the City's power transmission and supply needs. The City informed NCPA it will withdraw and discontinued its participation in the NCPA Power Pool. NCPA will continue to provide power to the City to meet the needs as scheduled by APM. Withdrawal from NCPA will not relieve the City of its obligations discussed in Note 15.

On November 14, 2006 the Redevelopment Agency issued Project Tax Exempt Allocation Bonds, Project Taxable Tax Allocation Bonds, and Taxable Tax Allocation Housing Bonds in the original principal amounts of $13,155,000, $3,285,000, and $6,505,000, respectively, to fund certain redevelopment and housin g activities of benefit to property within the Agency's Roseville Redevelopment Project Area. The Bonds are special obligations of the Agency and are secured by the Agency's tax increment revenue.

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APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture. Such summary does not purport to be complete, and reference is made to the entire Indenture for full and complete statements of such summarized provisions and all provisions of the Indenture.

DEFINITIONS

"Accountant's Certificate" means a certificate signed by an independent certified public accountant or a firm of independent certified public accountants, selected by the Issuer, who may be the accountant or firm of accountants who regularly audit the books of the Issuer.

"Act" means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended from time to time.

"Authorized Officer" means the Executive Director of the Issuer and any other officer or employee of the Issuer authorized to perform specific acts or duties by resolution duly adopted by the Issuer.

"Beneficial Owner" means, with respect to Bonds registered in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Bond held by the Securities Depository.

"Bond" or "Bonds" means any of the Issuer's Gas Revenue Bonds, Series 2007 authorized by the Indenture.

"Bond Counsel" means an attorney or firms of attorneys of recognized national standing in the field of law relating to municipal bonds and the exclusion of interest on municipal bonds from gross income for federal income tax purposes selected by the Issuer.

"Bond Register" means the books for the registration of the ownership and the transfer of ownership of the Bonds maintained by the Trustee pursuant to the Indenture.

"Business Day" means any day excluding (a) a Saturday or Sunday, any day on which banks located in the State of California or the State of New York, are required or authorized by law or other governmental action to close, and (b) any day on which the New York Mercantile Exchange or the Trustee is closed.

"Commodity Swap" means the ISDA Master Agreement, Schedule and Confirmation between the Issuer and the Swap Counterparty, or any replacement agreement permitted by the Indenture, pursuant to which the Issuer will pay to the Swap Counterparty an index-based floating price and the Swap Counterparty will pay to the Issuer a fixed price in relation to the daily quantities of Gas to be delivered under the Prepaid Gas Agreement.

"Commodity Swap Payments" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Swap Counterparty by the Issuer.

"Commodity Swap Receipts" means, as of each scheduled payment date specified in a Commodity Swap, the amount, if any, payable to the Issuer by the Swap Counterparty.

"Debt Service Fund" means the Debt Service Fund established in the Indenture.

"Defeasance Securities" means (a) Government Obligations and (b) time deposits and certificates of deposit to the extent that such deposits or certificates of deposit are Qualified Investments, and such interest-bearing time deposits or certificates of deposit which shall not be subject to redemption or repayment prior to their maturity or due date other than at the option of the depositor or holder thereof or as to which an irrevocable notice of redemption or repayment, or irrevocable instructions have been given to call for redemption or repayment, of such time deposits or certificates of deposit on a specified redemption or repayment date has been given and such time deposits or certificates of deposit are not otherwise subject to redemption or repayment prior to such specified date

other than at the option of the depositor or holder thereof, and which are fully secured by Government Obligations to the extent not insured by the Federal Deposit Insurance Corporation.

"Event of Default" means an event defined as such in the Indenture.

"Fiscal Year" means (a) the twelve (12) Month period beginning on July 1 of each year and ending on the next June 30, or (b) such other twelve (12) Month period established by the Issuer from time to time, upon Written Notice to the Trustee, as its fiscal year.

"Fitch" means Fitch, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Forward Purchase Agreement" means a written agreement among the Trustee, the Issuer and a Qualified Provider to purchase securities which are Qualified Investments for a Fund with moneys to be deposited in such Fund during the term of such agreement.

"Fund" or "Funds" means, as the case may be, each or all of the funds established in the Indenture.

"Funding Agreement" means that certain Funding and Assignment Agreement, dated as of February 1 , 2007, between the Issuer and the Funding Provider, as the same may be amended and supplemented.

"Funding Guarantee" means the Guarantee, dated February 1, 2007, from Merrill Lynch & Co. guaranteeing the payment obligations of the Funding Provider under the Funding Agreement.

"Gas Supply" means the Issuer's purchase of Gas pursuant to the Prepaid Gas Agreement and related contractual arrangements and agreements, and the purchase of any Gas to replace Gas not delivered as required pursuant to the Prepaid Gas Agreement.

"Government Obligations" means

(a) Non-callable obligations which are: (i) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America; or (ii) obligations unconditionally guaranteed as to principal and interest by the United States of America; or (iii) evidences of ownership interests in such direct or unconditionally guaranteed obligations;

(b) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which: (i) are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice; (ii) are rated in the highest Rating Category of S&P and Moody's; and (iii) are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in clause (a) above, which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable notice, as appropriate; and

(c) Any other bonds, notes or obligations of the United States of America or any agency or instrumentality thereof which, if deposited with the Trustee for defeasance purposes, will result in a rating on the Bonds which are deemed to have been paid pursuant to the defeasance provisions of the Indenture that is in the highest Rating Category of each Rating Agency that is then maintaining a rating on such Bonds.

"Interest Payment Date" means February 15 and August 15 of each year, commencing August 15, 2007.

"Internal Revenue Code" means the Internal Revenue Code of 1986.

"Mandatory Termination Payment" shall have the meaning given such term in the Prepaid Gas Agreement.

"Month" means a calendar month.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, and, if such corporation shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Municipality" means the City of Roseville, California, a municipal corporation and chartered city of the State.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel addressed to the Issuer and delivered to the Trustee.

"Outstanding," when used with reference to Bonds, means as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(a) Bonds cancelled (or portions thereof deemed to have been cancelled) by the Trustee at or prior to such date;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(c) Bonds deemed to have been paid as provided in Section 12.01.

"Owner" means any Person who shall be the registered owner of any Bond or Bonds.

"Person" means natural persons, firms, associations, corporations and public bodies.

"Qualified Investments" means any of the following investments, if and to the extent that the same are at the time legal investments of the Issuer's funds:

(a) Government Obligations;

(b) Bonds, debentures, notes and other evidences of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies or corporations:

(1) Federal Home Loan Bank System - senior debt obligations;

(2) Federal Home Loan Mortgage Corporation – participation certificates and senior debt obligations;

(3) Federal National Mortgage Association – mortgage-backed securities and senior debt obligations;

(4) Resolution Funding Corporation;

(5) Farm Credit System – consolidated system-wide bonds and notes

(c) Certificates of deposit and other evidences of deposit at state and federally chartered banks, savings and loan institutions or savings banks deposited and collateralized as required by law;

(d) Repurchase agreements entered into with the United States or its agencies or with any bank, broker-dealer or other such entity so long as the obligation of the obligated party is secured by a perfected pledge of full faith and credit obligations of the United States or its agencies;

(e) Guaranteed investment contracts or similar agreements providing for a specified rate of return over a specified time period with entities rated in one of the two highest Rating Categories of a Rating Agency; or with entities which have collateralized their obligations under such agreements with obligations described in (a) or (b) above;

(f) Corporate bonds rated at least Aa3 by Moody's and AA- by S&P;

(g) Direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers and rated in either of the two (2) highest Rating Categories of a Rating Agency;

(h) Obligations of any state of the United States or a political subdivision or instrumentality thereof, secured solely by revenues received by or on behalf of the state or political subdivision or instrumentality thereof irrevocably pledged to the payment of principal of and interest on such obligations, rated in one of the two highest Rating Categories by a Rating Agency;

(i) Money market funds registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, and having a rating by S&P of AAA-m-G AAA-m, or AA-m or a rating by Moody's of Aaa, Aa1, or Aa2; or

(j) Any other investments permitted by applicable law for the investment of the funds of the Issuer, including commercial paper, which are rated at least Aa3/P-1 by Moody's and AA-/A-1+ by S&P.

"Qualified Provider" means a financial institution which is a domestic or foreign bank, broker-dealer, or insurance company having a long-term debt rating in one of the two highest Rating Categories by Moody's, S&P and Fitch or whose obligations under a Forward Purchase Agreement are guaranteed by an entity having a long-term debt rating in one of the two highest Rating Categories by Moody's, S&P and Fitch; provided, that if such bank, broker-dealer, or insurance company is no longer rated at least Aa3 by Moody's or AA- by S&P or AA- by Fitch, the Trustee and the Issuer shall require such bank, broker-dealer, or insurance company to post such collateral or make such other security arrangements as the Issuer shall determine are appropriate for its interests; and upon the posting of such collateral or the making of such other security arrangements as the Issuer shall determine are appropriate for its interests, such bank, broker-dealer, or insurance company shall continue to be a Qualified Provider.

"Rating Agency" means each of Moody's, S&P and Fitch or any other rating agency so designated in a Supplemental Indenture.

"Rating Category" means one or more of the generic rating categories of a Rating Agency, without regard to any refinement or gradation of such rating category or categories by a numerical modifier, plus or minus signs, or otherwise.

"Rating Confirmation" means evidence satisfactory to the Trustee that upon the effectiveness of any proposed action, all Outstanding Bonds will continue to be assigned at least the same or equivalent ratings (including the same or equivalent numerical or other modifiers within a Rating Category) by each Rating Agency then rating such Outstanding Bonds.

"Redemption Price" means, with respect to any Bond, the amount payable upon the redemption thereof pursuant to such Bond or the Indenture other than any amounts due as accrued but unpaid interest.

"Revenue Fund" means the Revenue Fund established in the Indenture.

"Revenues" means: (a) all revenues, income, rents, user fees or charges, and receipts derived or to be derived by the Issuer from or attributable or relating to the ownership of the Gas Supply, including all revenues attributable or relating to the Gas Supply or to the payment of the costs thereof received or to be received by the Issuer under the Supply Agreement, the Prepaid Gas Agreement, the Guarantee, the Customer Insurance Policy or otherwise payable to it for the sale and/or transportation of Gas or otherwise with respect to the Gas Supply; (b) the proceeds of any insurance covering business interruption loss relating to the Gas Supply; (c) interest received or to be received on any moneys or securities (other than moneys or securities held in the Rebate Fund or in the Termination Fund) held pursuant to the Indenture and paid or required to be paid into the Revenue Fund; (d) any Commodity Swap Receipts received by the Issuer; and (e) any amounts paid under the Funding Agreement or the Funding Guarantee; but excluding from subsection (a) above the following items (i) any Termination Amount; (ii) any Unearned Amount; (iii) amounts paid by or on behalf of the Issuer for the mandatory redemption of Bonds pursuant to Section 4.01(b); (iv) amounts paid under the Supply Agreement after the termination thereof; and (v) any upfront payment made by a Qualified Provider; and excluding from subsection (e) above, any amounts paid as a

Mandatory Termination Advance (as defined in the Funding Agreement) and any amounts advanced under the Funding Guarantee in connection with a Mandatory Termination Advance.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if such entity shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Trustee.

"Scheduled Debt Service Deposits" means the required Monthly deposits to the Debt Service Fund or the required cumulative deposits in respect of the principal and interest payments coming due on the Bonds on each Interest Payment Date or date for payment of maturing principal, as the same may be amended as set forth in the Indenture.

"Sinking Fund Installment" means each amount so designated and set forth in the Indenture.

"State" means the State of California.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture executed and delivered by the Issuer and the Trustee in accordance with the applicable provisions of the Indenture.

"Supply Agreement" means the Natural Gas Supply Agreement, dated as of February 1, 2007, between the Issuer and the Municipality, as the same may be amended from time to time in accordance with the terms thereof and the Indenture.

"Swap Counterparty" means, with respect to the initial Commodity Swap, JP Morgan Chase Bank, N.A., and any successor to the foregoing, or, if any such Commodity Swap is replaced, the counterparty to such replacement Commodity Swap satisfying the requirements of the Indenture.

"Swap Payment Fund" means the Swap Payment Fund established in the Indenture.

"Tax Agreement" means the Tax Certificate and Agreement between the Issuer and the Trustee, dated as of the date of issuance and delivery of the Bonds.

"Tax-Exempt Status of the Bonds" means that the status of the Bonds is such that interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, with the exception that, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings.

"Trustee" means The Bank of New York Trust Company, N. A., and its successor or successors and any other corporation or national banking association which may at any time be substituted in its place pursuant to the Indenture.

"Trust Estate" means (a) the proceeds of the sale of the Bonds, (b) all right, title and interest of the Issuer in, to and under the Prepaid Gas Agreement, the Guarantee and the Supply Agreement, the Funding Agreement and the Funding Guarantee (c) the Revenues, (d) any Termination Amount, (e) any Mandatory Termination Payment and (f) all Funds established by the Indenture and held by the Trustee (other than the Rebate Fund) including the investment income, if any, thereof; subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein.

COMMODITY SWAP

Provisions Regarding Commodity Swap. In connection with the Gas Supply the Issuer shall enter into the initial Commodity Swap with the Swap Counterparty. The following shall apply to the initial Commodity Swap and any replacement Commodity Swap:

(i) The method for the calculation of the Commodity Swap Payments and Commodity Swap Receipts, as applicable, and the scheduled payment dates therefor are set forth in the Indenture.

(ii) Commodity Swap Payments shall be made by the Issuer out of the Swap Payment Fund.

(iii) At any time the Swap Counterparty is not rated at least Aa3 by Moody's, AA- by S&P, and AA- by Fitch, the Swap Counterparty shall post such collateral or make such security arrangements as are specified in the initial Commodity Swap and at any time the Swap Counterparty is not rated at least A1 by Moody's, A+ by S&P, and A+ by Fitch, the Authority shall use its best efforts to replace such Swap Counterparty and enter into a successor Commodity Swap.

(iv) At the time of entering into a Commodity Swap, each Swap Counterparty shall be a member of International Swaps and Derivatives Association, Inc. and rated at least Aa3 by Moody's, AA- by S&P and AA- by Fitch.

(v) Commodity Swap Receipts received by the Issuer shall be deposited directly into the Revenue Fund.

The Issuer may replace any Commodity Swap then in effect with a similar agreement upon delivery to the Trustee of a Rating Confirmation.

PAYMENTS ON BONDS

Medium of Payment; Form and Date; Letters and Numbers. The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the date (hereinafter, the "Regular Record Date") which is the 15th day of the Month next preceding such Interest Payment Date.

Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (hereinafter, "Defaulted Interest") shall forthwith cease to be payable to the Person who was the Owner on the relevant Regular Record Date; and such Defaulted Interest shall be paid by the Issuer to the Person in whose names the Bond is registered at the close of business on a date (hereinafter, the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Issuer shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Issuer shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer of such Special Record Date and, in the name and at the expense of the Issuer, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Owner at its address as it appears upon the Bond Register, not less than 10 days prior to such Special Record Date.

Subject to the provisions described above, each Bond delivered under the Indenture upon registration of transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Indenture, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, the Issuer shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of

the Bonds so surrendered, Bonds of like maturity in any of the Authorized Denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed, together with unpaid accrued interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

PLEDGE OF TRUST ESTATE

The Bonds shall be special obligations of the Issuer payable solely from, and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Indenture solely by, the Trust Estate. The Trust Estate is pledged and assigned under the Indenture for the payment of the principal and Redemption Price of and interest on the Bonds in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Trust Estate shall immediately be subject to the lien of the pledge of the Indenture without any further physical delivery thereof or other further act, and the lien of such pledge shall be a first lien and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice thereof.

COVENANTS OF THE ISSUER

Payment of Bonds. The Issuer shall duly and punctually pay or cause to be paid, but solely from the Trust Estate, the principal or Redemption Price, if applicable, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds, according to the true intent and meaning thereof.

Extension of Payment of Bonds. The Issuer shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of Revenues or Funds established by the Indenture, including the investment income, if any, thereof, pledged under the Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Indenture) held by the Trustee, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

Power to Issue Bonds and Pledge the Trust Estate. The Issuer is duly authorized under all applicable laws to create and issue the Bonds and to execute and deliver the Indenture and to pledge the Trust Estate, in the manner and to the extent provided in the Indenture. Except to the extent otherwise provided in the Indenture, the Trust Estate will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, or except as provided in the Commodity Swap subordinate to, the security interest, the pledge and assignment created by the Indenture, and all action on the part of the Issuer to that end has been and will be duly and validly taken. The Bonds and the provisions of the Indenture are and will be the valid and legally enforceable special obligations of the Issuer in accordance with their terms and the terms of the Indenture. The Issuer shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Indenture and all the rights of the Owners under the Indenture against all claims and demands of all Persons whomsoever.

Power to Fix and Collect Fees and Charges for the Sale of Gas. The Issuer has, and, to the extent permitted by law, will have as long as any Bonds are Outstanding, good right and lawful power to fix, establish, maintain and collect fees and charges for the sale and transportation of Gas or otherwise with respect to the Gas Supply, subject to the terms of the Supply Agreement.

Creation of Liens. The Issuer shall not issue any bonds, notes, debentures or other evidences of indebtedness of similar nature, other than the Bonds and bonds, notes or other obligations issued to refund Outstanding Bonds, or otherwise incur obligations other than the Commodity Swap, payable out of or secured by a

security interest in or pledge or assignment of the Trust Estate or any other assets of the Issuer and shall not create or cause to be created any lien or charge on the Trust Estate or any other assets of the Issuer other than the lien and charge created by the Indenture, and the lien and charge to secure such refunding obligations and the Commodity Swap.

Enforcement and Amendment of Documents. The Issuer shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all amounts payable to it pursuant to the Supply Agreement and all other Revenues. The Issuer shall enforce the provisions of the Supply Agreement, as well as any other contract or contracts entered into relating to the Gas Supply, and duly perform its covenants and agreements thereunder. The Issuer will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with the Supply Agreement which will impair the ability of the Issuer to comply with the provisions of the Indenture; provided that this provision shall not prevent the Issuer from otherwise taking any action under or in connection with the Supply Agreement which is expressly permitted pursuant to the provisions thereof.

The Issuer shall enforce the provisions of the Prepaid Gas Agreement and the Funding Agreement and duly perform its covenants and agreements thereunder and shall enforce the provisions of the Customer Insurance Policy, the Guarantee and the Funding Guarantee. The Issuer will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee or the Guarantee which will in any manner materially impair or materially adversely affect the rights of the Issuer thereunder or the rights or security of the Trustee or the Owners.

Under the Indenture the Issuer irrevocably appoints and directs the Trustee as its agent to issue notices and to take any other actions that the Issuer is required or permitted to take under (i) the Supply Agreement (including the termination thereof upon the default of the Municipality thereunder), (ii) the Prepaid Gas Agreement (including notices to direct the remarketing of Gas and notice designating an "Early Termination Date" thereunder); (iii) the Funding Agreement (including requesting funds thereunder); (iv) the Customer Insurance Policy (including requesting funds thereunder upon an uncured failure by the Municipality to pay); (v) the Funding Guarantee (including requesting funds thereunder) and (vi) the Guarantee (including requesting funds under such Guarantee immediately upon an uncured failure by the Gas Supplier to pay a Gas Payment). In exercising this agency power, the Trustee shall have the same power as the Issuer to take any such actions as it deems necessary under the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Customer Insurance Policy, the Funding Guarantee and the Guarantee. Notwithstanding this grant of agency power, the Issuer shall retain, in the absence of any conflicting action by the Trustee, the right to exercise any rights for which it has appointed the Trustee as its agent in accordance with the foregoing; provided however, if an Event of Default has occurred, the Trustee shall have the right to notify the Issuer to cease exercising such rights and, upon receipt of such notice with a copy provided to the Municipality under the Supply Agreement, the Gas Supplier under the Prepaid Gas Agreement, the Funding Provider under the Funding Agreement and the guarantor under the Guarantee and the Funding Guarantee, the Trustee shall have exclusive authority to exercise such rights, and to collect and apply all amounts payable thereunder, until such time as the Trustee issues a subsequent notice otherwise.

The Issuer shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all Commodity Swap Receipts or other amounts payable to it pursuant to the Commodity Swap. The Issuer shall enforce the provisions of the Commodity Swap and duly perform its covenants and agreements thereunder. The Issuer will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with any Commodity Swap which will impair the ability of the Issuer to comply with the provisions of the Indenture.

Upon the failure of the Gas Supplier to pay any amount due under the Prepaid Gas Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Guarantee. Upon the failure of the Advance Provider to pay any amount due under the Funding Agreement, the Trustee shall immediately make a demand for the payment of such amount by the guarantor under the Funding Guarantee.

Accounts and Reports. The Issuer shall keep or cause to be kept with respect to the Gas Supply proper books of record and account (separate from all other records and accounts) in accordance with generally accepted accounting principles, as such may be modified by the provisions of the Indenture, in which complete and correct

entries shall be made of its transactions relating to the Gas Supply, the amount of Revenues and the application thereof and each Fund established under the Indenture and relating to its costs and charges under the Supply Agreement and any other contracts for the sale or purchase of Gas, and which, together with the Prepaid Gas Agreement and all contracts and all other books and papers of the Issuer relating to the Gas Supply, shall, subject to the terms thereof, at all times during regular business hours be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The Issuer shall file with the Trustee (i) forthwith upon becoming aware of any Event of Default or default in the performance by the Issuer of any covenant, agreement or condition contained in the Indenture, a written certificate of the Issuer and specifying such Event of Default or default and (ii) within 180 days after the end of each Fiscal Year, commencing with the first Fiscal Year ending following the issuance of the Bonds, a written certificate of the Issuer signed by an Authorized Officer stating whether, to the best of such Authorized Officer's knowledge and belief, the Issuer has kept, observed, performed and fulfilled its covenants and obligations contained in the Indenture and that there does not exist at the date of such certificate any default by the Issuer under the Indenture or any Event of Default or other event which, with the giving of notice or the lapse of time, or both, would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specifying the same and the nature and status thereof.

The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Indenture shall be available for the inspection of Owners at the office of the Trustee and shall be mailed to each Owner who shall file a written request therefor with the Issuer. The Issuer may charge each Owner requesting such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

Tax Covenants. The Issuer covenants that it shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the Tax-Exempt Status of the Bonds under Section 103 of the Internal Revenue Code and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the Issuer covenants that it will comply with the instructions and requirements of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

In the event that at any time the Issuer is of the opinion that it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such action as specified in such instructions.

If the Issuer shall provide to the Trustee an Opinion of Bond Counsel that any specified action required by the tax covenants in the Indenture is no longer required or that some further or different action is required to maintain the Tax-Exempt Status of the Bonds, the Issuer and the Trustee may conclusively rely on such opinion in complying with the tax covenants in the Indenture and of the Tax Agreement, and the tax covenants shall be deemed to be modified to that extent.

Upon the Issuer's failure to observe or refusal to comply with the tax covenants in the Indenture, the Owners, or the Trustee acting on their behalf pursuant to their written request and direction, shall be entitled to the rights and remedies provided to the Owners under the Indenture, which in do not include upon a covenant default, the right to declare the principal of any Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately.

General. The Issuer shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Issuer under the provisions of the Act and the Indenture.

The Issuer shall not consolidate or amalgamate with, or merge with or into, or transfer all or substantially all its assets to, or reorganize, reincorporate or reconstitute into or as, another entity unless, (i) prior to such event, the Issuer receives confirmation from the Swap Counterparty that such event does not trigger a termination event under the Commodity Swap then in effect; and (ii) at the time of such consolidation, amalgamation, merger, transfer,

reorganization, reincorporation or reconstitution, the resulting, surviving or transferee entity assumes all the obligations of the Issuer under the Commodity Swap.

The Issuer shall not take any action, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the ratings on the Bonds.

Upon the date of authentication and delivery of any of the Bonds, all conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in connection with the issuance of such Bonds shall exist, have happened and have been performed in due time, form and manner, and the issuance of such Bonds, together with all other obligations of the Issuer, shall comply in all respects with the applicable laws of the State.

The Issuer shall at all times maintain its existence and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Issuer under the provisions of the Act and the Indenture.

Maintenance of Investment Revenues. At any and all times that any Forward Purchase Agreement is no longer provided by a Qualified Provider, the Issuer shall use its best efforts to replace such Forward Purchase Agreement with a replacement Forward Purchase Agreement with a Qualified Provider containing substantially the same terms as the replaced Forward Purchase Agreement. In the event that there is no such replacement or such replacement generates lower investment income, the Issuer shall increase the Contract Price by an amount that is sufficient to cover such loss of investment income.

EVENTS OF DEFAULT AND REMEDIES

Events of Default. Any one or more of the following shall constitute an Event of Default under the Indenture:

(a) default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise;

(b) default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) a determination by the Trustee on the third day after the 25th day of any Month, or if such day is not a Business Day on the nest succeeding Business Day, after the transfer of amounts from the Revenue Fund pursuant to the Indenture, that the amount on deposit in the Debt Service Fund (including for purposes of this computation, interest accrued on such deposits and investment income that remains on deposit in such Fund) is not at least equal to the cumulative Scheduled Debt Service Deposits for such Month specified in the Indenture;

(d) default shall be made by the Issuer in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default shall continue for a period of 60 days or, if such default cannot reasonably be remedied within such 60 day period, such longer period so long as diligent efforts are being made to remedy such default, after written notice thereof specifying such default and requiring that it shall have been remedied and stating that such notice is a "Notice of Default" hereunder is given to the Issuer by the Trustee or to the Issuer and to the Trustee by the Owners of not less than 10% in principal amount of the Bonds Outstanding;

(e) the Issuer shall commence a voluntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or shall authorize, apply for or consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefrom, or shall make any general assignment

for the benefit of creditors, or shall make a written declaration or admission to the effect that it is unable to meet its debts with respect to the Gas Supply as such debts mature, or shall authorize or take any action in furtherance of any of the foregoing;

(f) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Issuer in an involuntary case or similar proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (*provided, however*, that such event shall not constitute an Event of Default hereunder unless in addition, (i) the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature or (ii) any plan of adjustment or other action in such proceeding would affect in any way the Revenues or the Gas Supply), or a decree or order appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Gas Supply, or any part thereof, and/or the rents, fees, charges or other revenues therefrom, or a decree or order for the dissolution, liquidation or winding up of the Issuer and its affairs or a decree or order finding or determining that the Issuer is unable to meet its debts with respect to the Gas Supply as such debts mature, and any such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; and

(g) there shall occur any other Event of Default specified in a Supplemental Indenture.

In each and every such case, other than an Event of Default described in clause (d), (e) or (g) above, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, the Trustee (by notice in writing to the Issuer), or the Owners of not less than a majority in principal amount of the Bonds Outstanding (by notice in writing to the Issuer and to the Trustee) may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding. In the case of an Event of Default described in clause (e) or (f) above, the Trustee shall, without further action, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, anything in the Indenture or in the Bonds to the contrary notwithstanding. In the case of an Event of Default described in clause (d) or (g) above, unless the principal amount of all the Bonds shall have already become due and payable, the Trustee or the Owners of not less than a majority in principal amount of the Bonds Outstanding (after notice to the Trustee) may bring a suit in any court of competent jurisdiction to compel specific performance. The right of the Trustee or of the Owners of not less than a majority in principal amount of the Bonds Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with the reasonable fees, charges, expenses and liabilities of the Trustee, and all other sums then payable by the Issuer under the Indenture (except the principal of, and interest accrued since the next preceding Interest Payment Date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Issuer or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Owners of a majority in principal amount of the Bonds Outstanding, by written notice to the Issuer and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written directions to the contrary by the Owners of a majority in principal amount of the Bonds Outstanding, then any such declaration shall *ipso facto* be deemed to be rescinded and any such default shall *ipso facto* be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Accounting and Examination of Records After Default. The Issuer covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of the Issuer and all other records relating to the Gas Supply shall at all times during regular business hours be subject to the inspection and use of the Trustee and of its agents and attorneys.

Application of Moneys After Default; Enforcement of Agreements. The Issuer covenants that if an Event of Default shall happen and shall not have been remedied, the Issuer, upon the demand of the Trustee, shall (i) to the extent not previously so granted, grant to the Trustee the rights and remedies afforded the Issuer in the Supply Agreement, the Prepaid Gas Agreement, the Funding Agreement, the Guarantee, the Funding Agreement and the Funding Guarantee and (ii) pay over or cause to be paid over to the Trustee all Revenues which are not paid directly

to the Trustee as promptly as practicable after receipt thereof. During the continuance of an Event of Default, the Trustee shall continue to apply all Revenues received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture and any moneys in the Funds held by the Trustee hereunder as provided in the Indenture before the occurrence of such Event of Default.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable charges, expenses and liabilities of the Trustee, and all other sums payable by the Issuer under the Indenture, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Issuer, or provisions satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, thereupon the Issuer, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such restoration of the Issuer, the Trustee and the Owners to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Appointment of Receiver. The Trustee shall have the right, upon the happening of an Event of Default, to apply in an appropriate proceeding for the appointment of a receiver of the Gas Supply.

Proceedings Brought by Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Owners under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Issuer as if the Issuer were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners.

Restriction on Owner's Action. No Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture unless such Owner (i) shall have previously given to the Trustee written notice of the happening of an Event of Default and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee to take such action, (ii) shall have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the laws of the State or to institute such action, suit or proceeding in its own name, and (iii) shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay, but only from the Trust Estate, in accordance with the terms of the Indenture, at the respective dates of maturity and places therein expressed the principal or Redemption Price of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of execution and delivery of the Indenture.

SUPPLEMENTAL INDENTURES

Supplemental Indentures Not Requiring Consent of Owners. The Issuer and the Trustee may from time to time, subject to the conditions and restrictions in the Indenture contained, enter into a Supplemental Indenture or Indentures which shall thereafter form a part of the Indenture, without the consent of the Owners, for any one or more of the following purposes:

(a) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture;

(b) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect;

(c) To make any other modification or amendment of the Indenture that will not have a material adverse effect on the Owners;

(d) To add to the covenants and agreements of the Issuer in the Indenture, other covenants and agreements to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(e) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Issuer that are not contrary to or inconsistent with the Indenture as theretofore in effect;

(f) To authorize, in compliance with all applicable law, Bonds to be issued in the form of coupon Bonds registrable as to principal only and, in connection therewith, specify and determine the matters and things relative to the issuance of such coupon Bonds, including provisions relating to the timing and manner of provision of any notice required to be given hereunder to the Owners of such coupon Bonds, which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such coupon Bonds;

(g) To provide for the execution of a Commodity Swap in accordance with the provisions hereof;

(h) To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Indenture of the Revenues or of any other moneys, securities or funds;

(i) To add to the Events of Default in the Indenture additional Events of Default;

(j) To add to the Indenture any provisions relating to the application of interest earnings on any Fund under the Indenture required by law to preserve the Tax-Exempt Status of the Bonds;

(k) To evidence the appointment of a successor Trustee; or

(l) If the Bonds affected by such change are rated by a Rating Agency, to make any change upon receipt of a Rating Confirmation with respect to the Bonds so affected.

In making any determination under subsection (c), the Issuer and the Trustee may rely upon an Opinion of Counsel and/or certificates of investment bankers or other financial professionals or consultants.

Supplemental Indentures Effective With Consent of Owners. At any time or from time to time, a Supplemental Indenture may be entered into by the Issuer and the Trustee providing for any modification or amendment of the Indenture and of the rights and obligations of the Issuer and of the Owners of the Bonds thereunder with the written consent of the Owners of not less than a majority in principal amount of Outstanding Bonds; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like 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 Outstanding Bonds for purposes of such modification or amendment. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Bond or any Sinking Fund Installment for a Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or any Sinking Fund Installment for a Bond or in the rate of interest thereon without the consent of the Owner of the affected Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written assent thereto.

Exclusion of Bonds. Bonds owned or held by or for the account of the Issuer shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the Indenture with respect to amendments and supplements to the Indenture, and the Issuer shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the Indenture with respect to such amendments and supplements. At the time of any consent or other action taken with respect to amendments and supplements to the Indenture, the Issuer shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

DEFEASANCE

If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Indenture, then the pledge of the Trust Estate, and all covenants, agreements and other obligations of the Issuer to the Owners made hereunder, shall thereupon cease, terminate and be discharged and satisfied. In such event, the Trustee shall pay over or deliver to the Issuer all moneys or securities held by it pursuant to the Indenture which are not required for the payment of principal or Redemption Price, if applicable, of or interest on Bonds not theretofore surrendered for such payment or redemption. If the Issuer shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of any Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Issuer to the Owners of such Bonds shall thereupon cease, terminate and be discharged and satisfied except for remaining rights of registration of transfer and exchange of Bonds.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Issuer of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed above.

Any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to mail notice of redemption of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by an Accountant's Certificate), to pay when due the principal or Redemption Price, if applicable, of and the interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not to be redeemed or paid within the next succeeding 60 days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to mail a notice to the Owners of such Bonds at their last addresses appearing upon the Bond Register at the close of business on the last Business Day of the Month preceding the Month for which notice is mailed that the deposit described above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance

with the Indenture and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

The Trustee shall, as and to the extent necessary, apply moneys held by it pursuant to the defeasance provisions of the Indenture to the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Indenture. The Trustee shall, if so directed by the Issuer (A) prior to the maturity date of Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity or (B) prior to the mailing of the notice of redemption referred to above with respect to any Bonds which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and, the Trustee shall immediately thereafter cancel all such Bonds so purchased; *provided, however*, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds (or the deemed cancellation thereof) shall be sufficient (as evidenced by an Accountant's Certificate) to pay when due the maturing principal or Redemption Price, if applicable, and interest due or to become due on all defeased Bonds not so purchased. With respect to such cancelled Bonds, the Issuer may direct the Trustee as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with the Indenture. Except as otherwise provided in the Indenture, neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the defeasance provisions of the Indenture nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities, (x) to the extent such cash will not be required at any time for such purpose (as evidenced by an Accountant's Certificate), shall be paid over to the Issuer as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Indenture, and (y) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient (as evidenced by an Accountant's Certificate), together with the other funds and Defeasance Securities then held by the Trustee for such purpose to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds, and interest earned from such reinvestments shall be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such Bonds became due and payable, shall, at the written request of the Issuer, be repaid by the Trustee to the Issuer, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Issuer for the payment of such Bonds; *provided, however*, that before being required to make any such payment to the Issuer the Trustee shall, at the expense of the Issuer, mail by first class mail, postage prepaid, to the Owners of such Bonds at the addresses of such Owners in the Bond Register, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the Issuer.

MISCELLANEOUS

Evidence of Signatures of Owners and Ownership of Bonds. Any request, consent or other instrument which the Indenture may require or permit to be signed and executed by the Owners may be in one or more instruments of similar tenor and, except as otherwise provided in the Indenture, shall be signed or executed by such Owners in person or by their attorneys appointed in writing. Proof of (1) the execution of any such instrument, or of an instrument appointing any such attorney, or (2) the holding by any Person of the Bonds shall be sufficient for any purpose of the Indenture (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The fact and date of the execution by any Owner or its attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate

of any notary public or other officer authorized to take acknowledgments of deeds, that the Person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature, guarantee, certificate or affidavit shall also constitute sufficient proof of its authority.

The ownership of Bonds and the amount, numbers and other identification, and date of holding the same, shall be proved by the Bond Register.

Any request or consent by the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the Issuer or the Trustee in accordance therewith.

No Recourse on the Bonds. None of the members of the Issuer, the members of the Board of Directors of the Issuer, any person executing a Bond, or any officer or employee of the Issuer shall be liable personally for the principal or Redemption Price of, or interest on, the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or in respect of any undertaking by the Issuer under the Indenture.

APPENDIX D — SCHEDULE OF DAILY CONTRACT QUANTITIES

Month	Daily Contract Quantity (MMBtu/Day)
January	6,000
February	5,000
March	2,500
April	2,500
May	3,000
June	4,500
July	12,000
August	12,000
September	10,000
October	6,000
November	8,000
December	5,500

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APPENDIX E — FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds in definitive form, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Issuer, proposes to render its opinion in substantially the following form:

Date of Delivery

Board of Directors
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, California 95678

Re: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Roseville Natural Gas Financing Authority (the "Authority") in connection with the issuance of $209,350,000 aggregate principal amount of its Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Agreement for the Purchase and Sale of Natural Gas (the "Prepaid Gas Agreement"), dated January 24, 2007 between the Authority and Merrill Lynch Commodities, Inc., the Natural Gas Supply Agreement (the "Supply Agreement"), dated as of February 1, 2007 between the Authority and the City of Roseville (the "Municipality"), the Tax Agreement, dated the date hereof, relating to the Bonds (the "Tax Agreement"), certificates of the Authority, the Municipality, the Trustee and others, opinions of counsel to the Authority, the Municipality, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Prepaid Gas Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court 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 or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the

Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy of the description contained therein of, or the remedies available to enforce liens on, any of such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Trust Estate which pledge is subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein.

3. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture, which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture. Neither the faith and credit nor the taxing power of the State of California, the Authority, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds and the issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State of California or any public agency, including the Municipality, other than the special obligation of the Authority as provided in the Indenture.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF ROSEVILLE, CALIFORNIA

relating to:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS, Series 2007

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF ROSEVILLE (the "City"), for and on behalf of itself and the Roseville Natural Gas Financing Authority (the "Authority"), in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered by The Bank of New York Trust Company, N. A., as trustee (the "Trustee"), in accordance with a Trust Indenture, dated as of February 1, 2007 (the "Indenture"), by and between the Authority and the Trustee. 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 registered and beneficial owners of the Bonds and in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth 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 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.

"*Dissemination Agent*" means The Bank of New York Trust Company, N. A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as they may be designated from time to time pursuant to the Rule. Any filing under this Disclosure Certificate with a National Repository may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

"*Official Statement*" means the Official Statement relating to the Bonds.

"*Purchaser*" means Merrill Lynch & Co., the initial purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Report Date*" means seven months after the end of the City's fiscal year, (currently January 31 of each year based on the City's June 30 fiscal year end).

"*Repository*" means each National Repository and each State Repository.

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

"*State Repository*" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Report Date, beginning on January 31, 2008, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee, Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy) and the Purchaser. Not later than 15 Business Days before the Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). 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. The audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Report Date, if not available by the Report 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 and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City under this Disclosure Certificate.

(b) If the City is unable to provide to the Repositories an Annual Report by the Report Date, the City shall, by written direction, cause the Dissemination Agent to provide to each Repository and to the Municipal Securities Rulemaking Board and each State Repository (with a copy to the Trustee and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy)) a notice, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Report Date the name and address of each National Repository and each State Repository, if any; 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, stating the date it was provided and listing all the Repositories to which it was provided.

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

(a) Audited Financial Statements of the City, which shall include financial statements of the City's municipal electric power utility (the "Electric System") 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 City's audited financial statements are not available by the 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 prior to the Report Date, the following financial information and operating data with respect to the City and the Electric System for the preceding fiscal year as of June 30 of the previous fiscal year:

(1) The principal amount of the outstanding Bonds.

(2) The balance in the Rate Stabilization Fund.

(3) An updated table substantially in the form of Table 1 in Exhibit A to the Official Statement entitled "Customers, Sales and Demand."

(4) An updated table substantially in the form of Table 2 in Exhibit A to the Official Statement entitled "Ten Largest Customers."

(5) An updated table substantially in the form of Table 3 in Exhibit A to the Official Statement entitled "Sources of Power Supply."

(6) An updated table substantially in the form of Table 7 in Exhibit A to the Official Statement entitled "City Share of Outstanding Joint Powers Agencies Debt."

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 have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

(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.

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:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.

(vii) Modifications to rights of Bond owners.

(viii) Contingent or unscheduled prepayment of Bonds.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) 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, by written direction, cause the Dissemination Agent to promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee, the Purchaser and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy), together with written direction to the Trustee whether or not to notify the Bond owners of the filing of such notice. In the absence of any such direction, the Trustee shall not send such notice to the Bond owners. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment 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 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N. A. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 8. 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 owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the registered 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 of this Section, the first annual financial information filed pursuant to this Disclosure Certificate 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 sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. 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 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Purchaser or the owners of at least 25 percent aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any registered 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 Indenture, 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 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee 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 and the Trustee, their 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 or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, but shall terminate upon the termination of the City's obligations under this Disclosure Certificate pursuant to Section 6 of this Disclosure Certificate.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the City:	City of Roseville 311 Vernon Street Roseville, California 95678 Attention: Administrative Services Director Fax: (916) 774-5514
To the Trustee:	The Bank of New York Trust Company, N.A. 550 Kearny Street, Suite 600 San Francisco, California 94108 Attention: Corporate Trust Department Fax: (415) 399-1647
To the Purchaser:	Merrill Lynch & Co. Global Markets and Investment Banking 101 California Street San Francisco, CA 94111 Attention: Mr. Ed Burdett, Managing Director Fax: (415) 676-3351

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Purchaser and registered 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: February 6, 2007

CITY OF ROSEVILLE

By: _____
Authorized Representative

ACCEPTED AND AGREED:

The Bank of New York Trust Company, N. A.,
as Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party:	CITY OF ROSEVILLE
Name of Issue:	$209,350,000 Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007
Date of Issuance:	February 6, 2007

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 as of February 6, 2007. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT

By: _____

Title:

cc: Trustee

APPENDIX G — SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS

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APPENDIX G — SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS

Bond Redemption Date	Amortized Value
04/02/2007	$224,643,342.15
04/30/2007	224,563,961.25
05/31/2007	224,478,589.70
07/02/2007	224,396,224.25
07/31/2007	224,322,189.15
08/31/2007	224,238,047.45
10/01/2007	224,148,593.65
10/31/2007	224,061,878.45
11/30/2007	223,980,417.45
12/31/2007	223,896,365.55
01/31/2008	223,817,398.20
02/29/2008	223,738,294.80
03/31/2008	223,640,683.85
04/30/2008	223,555,224.15
06/02/2008	223,463,490.50
06/30/2008	223,385,858.40
07/31/2008	223,302,866.90
09/02/2008	223,211,698.25
09/30/2008	223,125,138.90
10/31/2008	223,031,958.90
12/01/2008	222,944,151.00
12/31/2008	222,859,318.60
02/02/2009	222,774,591.20
03/02/2009	216,040,930.25
03/31/2009	215,950,612.00
04/30/2009	215,863,130.25
06/01/2009	215,771,737.55
06/30/2009	215,688,913.40
07/31/2009	215,603,146.30
08/31/2009	215,513,479.95
09/30/2009	215,421,431.30
11/02/2009	215,322,464.00
11/30/2009	215,238,610.05
12/31/2009	215,148,119.65
02/01/2010	215,063,809.30
03/01/2010	208,322,820.35
03/31/2010	208,227,056.30
04/30/2010	208,136,769.00
06/01/2010	208,042,825.85
06/30/2010	207,957,302.95
08/02/2010	207,865,658.40
08/31/2010	207,776,255.50
09/30/2010	207,681,435.50
11/01/2010	207,582,801.00
11/30/2010	207,493,008.30
12/31/2010	207,400,060.85
01/31/2011	207,312,084.90
02/28/2011	200,316,172.30
03/31/2011	200,213,865.50
05/02/2011	200,120,535.30
05/31/2011	200,035,423.75
06/30/2011	199,952,606.50
08/01/2011	199,866,536.55
08/31/2011	199,777,169.60
09/30/2011	199,685,566.35
10/31/2011	199,589,831.75
11/30/2011	$199,503,055.45
01/03/2012	199,407,189.70
01/31/2012	199,327,829.50
02/29/2012	191,981,369.30
04/02/2012	191,882,761.95
04/30/2012	191,801,311.30
05/31/2012	191,713,434.75
07/02/2012	191,628,013.25
07/31/2012	191,550,691.65
08/31/2012	191,463,855.75
10/01/2012	191,372,442.30
10/31/2012	191,283,351.65
11/30/2012	191,199,567.15
12/31/2012	191,112,484.80
01/31/2013	191,030,591.20
02/28/2013	183,280,069.55
04/01/2013	183,185,068.80
04/30/2013	183,104,033.50
05/31/2013	183,019,545.55
07/01/2013	182,940,333.10
07/31/2013	182,863,026.35
09/03/2013	182,774,121.90
09/30/2013	182,694,521.85
10/31/2013	182,606,158.00
12/02/2013	182,520,043.70
12/31/2013	182,441,783.60
01/31/2014	182,362,790.00
02/28/2014	174,260,337.85
03/31/2014	174,169,424.90
04/30/2014	174,091,895.35
06/02/2014	174,008,395.65
06/30/2014	173,937,294.70
07/31/2014	173,860,762.95
09/02/2014	173,778,434.35
09/30/2014	173,699,558.35
10/31/2014	173,614,841.60
12/01/2014	173,534,889.60
12/31/2014	173,457,446.30
02/02/2015	173,379,344.30
03/02/2015	164,867,286.55
03/31/2015	164,790,941.40
04/30/2015	164,717,149.85
06/01/2015	164,640,073.95
06/30/2015	164,569,609.20
07/31/2015	164,497,029.05
08/31/2015	164,421,055.85
09/30/2015	164,343,623.55
11/02/2015	164,259,985.00
11/30/2015	164,189,119.10
12/31/2015	164,112,530.55
02/01/2016	164,040,757.80
02/29/2016	155,112,372.85
03/31/2016	155,032,837.60
05/02/2016	154,957,929.25
05/31/2016	154,889,563.45
06/30/2016	154,823,036.30

SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS (continued)

Bond Redemption Date	Amortized Value	Bond Redemption Date	Amortized Value
08/01/2016	$154,753,790.75	03/31/2021	$99,712,577.70
08/31/2016	154,682,050.65	04/30/2021	99,664,819.30
09/30/2016	154,608,126.55	06/01/2021	99,615,038.15
10/31/2016	154,531,208.75	06/30/2021	99,569,921.60
11/30/2016	154,461,655.30	08/02/2021	99,521,300.05
01/03/2017	154,384,398.75	08/31/2021	99,473,866.75
01/31/2017	154,320,903.85	09/30/2021	99,423,528.10
02/28/2017	144,913,982.55	11/01/2021	99,371,543.30
03/31/2017	144,836,397.45	11/30/2021	99,323,923.55
05/01/2017	144,767,838.15	12/31/2021	99,274,706.15
05/31/2017	144,701,468.10	01/31/2022	99,228,340.50
06/30/2017	144,638,461.95	02/28/2022	87,267,453.85
07/31/2017	144,573,401.65	03/31/2022	87,218,214.05
08/31/2017	144,505,614.80	05/02/2022	87,173,117.55
10/02/2017	144,431,644.90	05/31/2022	87,131,977.55
10/31/2017	144,363,587.65	06/30/2022	87,091,822.80
11/30/2017	144,297,812.60	08/01/2022	87,050,127.65
01/02/2018	144,227,318.25	08/31/2022	87,006,752.00
01/31/2018	144,165,513.90	09/30/2022	86,962,238.70
02/28/2018	134,326,835.75	10/31/2022	86,915,864.30
04/02/2018	134,252,518.35	11/30/2022	86,873,592.75
04/30/2018	134,192,482.90	01/03/2023	86,827,352.25
05/31/2018	134,128,052.30	01/31/2023	86,789,155.30
07/02/2018	134,065,147.15	02/28/2023	74,233,444.15
07/31/2018	134,008,343.30	03/31/2023	74,191,156.85
08/31/2018	133,944,670.85	05/01/2023	74,153,219.45
10/01/2018	133,877,262.95	05/31/2023	74,116,462.20
10/31/2018	133,811,681.75	06/30/2023	74,082,006.95
11/30/2018	133,749,988.30	07/31/2023	74,045,839.55
12/31/2018	133,685,957.00	08/31/2023	74,008,367.55
01/31/2019	133,625,699.70	10/02/2023	73,967,434.50
02/28/2019	123,296,427.65	10/31/2023	73,930,094.05
04/01/2019	123,229,495.50	11/30/2023	73,893,766.30
04/30/2019	123,171,649.25	01/02/2024	73,854,955.10
05/31/2019	123,111,828.60	01/31/2024	73,821,054.85
07/01/2019	123,055,305.55	02/29/2024	60,634,665.20
07/31/2019	123,000,582.15	04/01/2024	60,600,623.60
09/03/2019	122,937,403.10	04/30/2024	60,570,447.65
09/30/2019	122,881,312.05	05/31/2024	60,538,793.85
10/31/2019	122,818,348.50	07/01/2024	60,509,367.50
12/02/2019	122,757,304.30	07/31/2024	60,480,240.15
12/31/2019	122,701,654.50	09/03/2024	60,446,976.50
01/31/2020	122,645,608.10	09/30/2024	60,417,258.85
03/02/2020	111,787,946.30	10/31/2024	60,384,133.85
03/31/2020	111,734,068.65	12/02/2024	60,351,883.10
04/30/2020	111,681,315.90	12/31/2024	60,322,879.35
06/01/2020	111,626,174.70	01/31/2025	60,293,745.35
06/30/2020	111,576,541.95	02/28/2025	46,404,519.75
07/31/2020	111,524,407.85	03/31/2025	46,377,379.90
08/31/2020	111,469,965.35	04/30/2025	46,353,906.45
09/30/2020	111,414,540.20	06/02/2025	46,328,897.75
11/02/2020	111,355,126.95	06/30/2025	46,307,402.80
11/30/2020	111,304,245.05	07/31/2025	46,284,242.35
12/31/2020	111,249,911.05	09/02/2025	46,259,103.40
02/01/2021	111,198,805.85	09/30/2025	46,235,339.35
03/01/2021	99,763,116.15	10/31/2025	46,209,429.10

SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2007 BONDS (continued)

Bond Redemption Date	Amortized Value
12/01/2025	$46,185,497.35
12/31/2025	46,162,169.20
02/02/2026	46,138,979.00
03/02/2026	31,589,659.40
03/31/2026	31,573,238.45
04/30/2026	31,557,130.50
06/01/2026	31,540,396.55
06/30/2026	31,524,914.60
07/31/2026	31,509,119.65
08/31/2026	31,492,393.40
09/30/2026	31,475,041.15
11/02/2026	31,456,749.90
11/30/2026	31,441,267.95
12/31/2026	31,424,686.65
02/01/2027	31,409,349.65
03/01/2027	16,132,653.15
03/31/2027	16,123,673.55
04/30/2027	16,115,335.35
06/01/2027	16,106,676.45
06/30/2027	16,098,658.95
08/02/2027	16,090,160.40
08/31/2027	16,081,501.50
09/30/2027	16,072,361.55
11/01/2027	16,063,061.25
11/30/2027	16,054,723.05
12/31/2027	16,046,224.50
01/31/2028	16,038,367.35

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Execution Copy

$209,350,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS, SERIES 2007
BOND PURCHASE CONTRACT

January 24, 2007

Board of Directors
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, California 95678

To the Addressee:

The undersigned, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchaser of the Bonds (as hereinafter defined) (the "Purchaser"), being duly authorized, hereby offers to enter into this Bond Purchase Contract with the Roseville Natural Gas Financing Authority (the "Authority") for the purchase by the Purchaser and the sale by the Authority of $209,350,000 in aggregate principal amount of Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007 (the "Bonds"). This offer is made subject to acceptance by the Authority of this Bond Purchase Contract, which acceptance shall be evidenced by the execution of this Bond Purchase Contract by a duly authorized officer of the Authority prior to 3:00 p.m., San Francisco, California, time, on the date set forth above. Upon such acceptance and execution, by such time and such date as aforementioned, this Bond Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon the Authority and the Purchaser.

The Bonds have been authorized and will be issued by the Authority and secured under and pursuant to the Trust Indenture, dated as of February 1, 2007 (the "Indenture"), between the Authority and The Bank of New York Trust Company, N.A. (the "Trustee"). The Bonds shall be issued as fixed rate bonds and shall bear interest, payable on February 15 and August 15 of each year commencing August 15, 2007, and continuing until maturity or until such Bonds are redeemed or paid prior to maturity. The Bonds shall mature on February 15 in the years and in the respective principal amounts, and shall bear interest at the respective interest rates per annum shown on Schedule I attached hereto. The Bonds shall be subject to optional and mandatory redemption as described in and at the prices determined under the Indenture. All capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Indenture and, if not defined in the Indenture, the Prepaid Gas Agreement (defined below).

The Bonds shall be issued and secured under and pursuant to the Indenture, and shall be issued as authorized by the Authority pursuant to a resolution adopted by the Authority on January 17, 2007 (the "Authority Resolution"). Proceeds from the sale of the Bonds will be used to (i) finance the cost of acquiring a twenty-year supply of natural gas (the "Gas Supply") from

Merrill Lynch Commodities, Inc. (the "Gas Supplier") pursuant to an Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "Prepaid Gas Agreement") between the Authority and the Gas Supplier, (ii) fund capitalized interest on the Bonds, (iii) pay the premium for the Customer Insurance Policy (as hereinafter defined), and (iv) pay all or a portion of the costs of issuing the Bonds. The Gas Supplier's payment obligations under the Prepaid Gas Agreement will be guaranteed by Merrill Lynch & Co., Inc. (in such capacity, the "Guarantor") pursuant to a guarantee, dated the date of the Closing (the "Seller Guarantee"), in favor of the Authority.

The Gas Supply acquired by the Authority with the proceeds of the Bonds will be resold by the Authority to the City of Roseville, California (the "Municipality") pursuant to a Natural Gas Supply Agreement dated as of February 1, 2007 (the "Supply Agreement"), entered into by and between the Authority and the Municipality. The obligation of the Municipality pursuant to the Supply Agreement to pay to the Authority the Contract Price (as such term is defined in the Supply Agreement) for gas delivered or deemed delivered to it pursuant to the Supply Agreement will be guaranteed by Financial Security Assurance Inc. (the "Customer Insurance Policy Provider") pursuant to a financial guaranty insurance policy issued by the Customer Insurance Policy Provider (the "Customer Insurance Policy"). The Customer Insurance Policy insures only the payments required to be made by the Municipality for such gas delivered or deemed delivered to the Municipality and does not insure any other payment obligations of the Municipality under the Supply Agreement.

The Authority and the Gas Supplier will enter into a funding and assignment agreement dated as of February 1, 2007 (the "Funding Agreement"). The Funding Agreement provides that the Gas Supplier will advance funds to the Authority under certain circumstances in the event there is a deficiency in the Termination Fund or a deficiency in the Debt Service Fund. Under certain other circumstances, the Gas Supplier has the right to make advances to cover fund deficiencies within its sole determination and discretion. The Gas Supplier's obligations under the Funding Agreement will be guaranteed under a guarantee (the "Funding Guarantee") provided by the Guarantor.

In connection with the acquisition by the Authority of the Gas Supply under the Prepaid Gas Agreement, the Authority will enter into a certain commodity price hedge transaction relating to such Gas Supply with JPMorgan Chase Bank, N.A. (the "Swap Counterparty"). In order to provide for such commodity price hedge transaction, the Authority and the Swap Counterparty have entered into an ISDA Master Agreement, dated as of January 24, 2007, including the Schedule thereto (the "Commodity Master Agreement"), and a Confirmation, dated the date of execution thereof, under the Commodity Master Agreement (the "Commodity Confirmation" and, together with the Commodity Master Agreement, the "Commodity Swap").

The Authority has caused to be prepared a Preliminary Official Statement, dated January 18, 2007 (such Preliminary Official Statement, including the cover page and all appendices, exhibits, reports and statements included therein or attached thereto being herein called the "Preliminary Official Statement"), which the Authority has authorized to be circulated, and the Authority consents to the use of the Preliminary Official Statement by the Purchaser prior to the date hereof in connection with the offering of the Bonds. The Authority hereby certifies to the Purchaser that the Preliminary Official Statement, as of its date, was deemed final for purposes

of Rule 15c2-12 (defined below). Concurrently with the acceptance and execution of this Bond Purchase Contract by the Authority, the Authority shall deliver to the Purchaser an Official Statement, dated the date of this Bond Purchase Contract, substantially in the form of the Preliminary Official Statement, with only such changes therein or modifications thereof (including without limitation any changes in or modifications of any of the appendices, exhibits, reports or statements included therein or attached thereto) as shall have been accepted and approved by the Purchaser in its reasonable discretion, which Official Statement shall have been authorized by the Authority Resolution (such Official Statement, including the cover page and all appendices, exhibits, reports and statements included therein or attached thereto and any amendments and supplements thereto that may be authorized by the Authority for use with respect to the Bonds being herein called the "Official Statement"). Such Official Statement shall be accompanied by evidence satisfactory to the Purchaser that the ratings assigned to the Bonds by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings, Ltd. ("Fitch") (each a "Rating Agency") are no lower than the respective ratings set forth in the Official Statement.

The Authority hereby consents to the use of copies of the Preliminary Official Statement, the Official Statement, the Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap and other pertinent documents in connection with the offering and sale of the Bonds. The Authority hereby agrees to provide to the Purchaser within seven (7) business days after the date of this Bond Purchase Contract, a sufficient number of copies of the Official Statement to enable the Purchaser to deliver a copy thereof to each of the initial purchasers of the Bonds, and upon reasonable request during a period of 90 days following the date hereof, such additional copies as may be required in order to permit the Purchaser to provide a copy of the Official Statement to any potential purchaser on such purchaser's request.

In order for the Purchaser to comply with its obligations under Rule 15c2-12 ("Rule 15c2 12") of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"), the Municipality (on behalf of itself and the Authority) and the Trustee (as Dissemination Agent) will execute on or prior to the Closing Date (as defined in Section 5 hereof) a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") relating to the Bonds.

It is understood and agreed that the Bonds and the interest thereon are limited revenue obligations of the Authority payable solely from the Trust Estate. The Bonds are not a debt of the Municipality, the State of California (the "State") or any political subdivision thereof, and none of the Municipality, the State or any political subdivision thereof is liable thereon. In no event will the Bonds be payable out of any funds or properties other than those pledged and assigned by the Authority for the benefit of the owners of the Bonds under and pursuant to the Indenture.

The Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Customer Insurance Policy, the Commodity Swap, the Continuing Disclosure Certificate, the Official Statement, the Seller Guarantee, the Funding Guarantee, and this Bond Purchase Contract and any documents or agreements required to be executed and delivered by in accordance with the terms thereof and hereof, are collectively referred to herein as the "Transaction Documents."

1. Purchase and Sale of the Bonds. (a) Upon the terms and conditions and based on the representations, warranties and covenants hereinafter set forth, the Purchaser hereby agrees to purchase from the Authority, and the Authority hereby agrees to sell to the Purchaser, all (but not less than all) of $209,350,000 in aggregate principal amount of Roseville Natural Gas Financing Authority, Gas Revenue Bonds, Series 2007, at the purchase price of $223,795,962.87 (*i.e.*, 100% of the aggregate principal amount of the Bonds, plus the original issue premium of $15,454,116.15, less a Purchaser's discount of $1,008,153.28) (the "Purchase Price"). The Purchaser is hereby authorized and directed to wire $124,992.00, on the Issuer's behalf, of such Purchase Price directly to the Customer Insurance Policy Provider or as instructed thereby to pay the premium on the Customer Insurance Policy.

2. Public Offering. The Purchaser agrees to make a bona fide public offering of the Bonds at prices not in excess of the offering price set forth on the inside cover page of the Official Statement and as shown in Schedule I hereto. The Purchaser, however, reserves the right to change such offering price as the Purchaser shall deem necessary in connection with the initial offering of the Bonds. The Purchaser agrees to notify the Authority of such changes, if such changes occur prior to the Closing Date, but failure so to notify shall not invalidate such changes. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at a price or prices lower (or yield or yields higher) than the public offering price or prices (or yield or yields) described above.

3. Representations of the Purchaser. The Purchaser represents that the payment for, acceptance of and execution and delivery of any receipt for the Bonds and any other instruments in connection with the Closing referred to in Section 5 hereof shall be valid and sufficient for all purposes and binding upon the Purchaser, provided that any such action by the Purchaser shall not impose any obligation or liability upon it other than as may arise as set forth expressly in this Bond Purchase Contract. The Purchaser represents that it is authorized to execute and deliver this Bond Purchase Contract.

4. Representations and Warranties of the Authority. The Authority hereby represents and warrants to and covenants with the Purchaser as follows:

(a) The Authority is a joint exercise of powers agency and public entity of the State duly created and validly existing under the provisions of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended from time to time (the "Act").

(b) The Authority is authorized under the Act and the laws of the State (i) to issue the Bonds for the purposes described in the Indenture; (ii) to pledge to the Trustee, for the benefit of the owners of the Bonds, the Trust Estate; (iii) to execute and deliver the Transaction Documents to which it is a party (the "Authority Documents"); and (iv) to carry out and consummate all of the transactions contemplated on its part by each of the Authority Documents.

(c) The information contained in the Official Statement is, and at all times subsequent hereto to and including the date of the Closing will be, true and correct in all material respects and does not contain and, at all such times, will not contain any untrue

statement of a material fact and does not omit and, at all such times, will not omit, to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; *provided,* that no representation is provided with respect to the sections or subsections of the Official Statement designated: "TERMS OF THE BONDS—Book-Entry Only System," "THE SELLER, THE SELLER GUARANTOR, THE SELLER GUARANTEE AND THE FUNDING GUARANTEE" and "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC.—Description of FSA" nor to the information regarding the Seller Swap Agreement or the Swap Counterparty included under the heading "THE GAS SUPPLY ACQUISITION—The Commodity Price Hedge."

(d) The Authority has duly authorized and approved the execution and delivery of this Bond Purchase Contract.

(e) On or before the date of the Closing referred to in Section 5 hereof, the Authority will have duly authorized all actions required to be taken by it for (i) the issuance and sale of the Bonds upon the terms set forth herein and in the Indenture; and (ii) the approval, execution, delivery and due performance of the Authority Documents, and any and all such other agreements and documents as may be required to be executed, delivered, or performed by the Authority in order to carry out, give effect to and consummate the transactions contemplated on its part herein and by each of the Authority Documents.

(f) The Transaction Documents will be in the respective forms approved by the Authority or in existence on the date of this Bond Purchase Contract, with only such changes therein or modifications thereof as the Purchaser and the Authority shall mutually agree upon. If the Purchaser shall fail to consent to or approve any changes in or modifications to the Transaction Documents, the Purchaser shall have the right to cancel its obligation to purchase the Bonds hereunder. This Bond Purchase Contract, and when the other Authority Documents are executed, delivered or adopted, as applicable, and assuming the due execution and delivery by the other parties thereto, will constitute valid and binding obligations of the Authority, enforceable in accordance with their respective terms (subject in each case to principles of equity and to any applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally from time to time in effect).

(g) The Bonds, when issued, delivered and paid for as herein provided, will have been duly authorized, executed, authenticated, issued and delivered and will constitute valid and binding obligations of the Authority enforceable in accordance with their terms and entitled to the benefits and security of the Indenture (subject to principles of equity and any applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally from time to time in effect). The Bonds are special revenue obligations of the Authority payable solely from the Trust Estate. The Bonds are not a debt of any of the Municipality, the State or any political

subdivision thereof, and none of the Municipality, the State or any political subdivision thereof is liable thereon.

(h) The Authority will not take or omit to take any action that will cause or result in the proceeds from the sale of the Bonds being applied in a manner other than as specified in the Indenture, the Official Statement and this Bond Purchase Contract.

(i) Except as is described in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending (*i.e.*, as to which the Authority has received service of process) or, to the knowledge of the Authority, threatened against or affecting the Authority (i) attempting to limit, enjoin or otherwise restrict or prevent the Authority from functioning or contesting or questioning the existence of the Authority or the titles of the present officers of the Authority to their offices or (ii) wherein an unfavorable decision, ruling or finding would (A) materially adversely affect the existence or powers of the Authority or the validity or enforceability of the Bonds, any other Authority Document, or any agreement or instrument to which the Authority is a party and which is used or contemplated for use in the consummation of the transactions contemplated hereby or by the aforesaid documents; or (B) materially adversely affect (1) the financial condition or results of operations of the Authority; or (2) the transactions contemplated hereby or by the Official Statement.

(j) As of the date of this Bond Purchase Contract, the Authority has not issued or sold any bonds, notes or other obligations for borrowed money with a lien on the Trust Estate prior to or on a parity with the lien thereon created for the benefit of the Bonds, and except for the lien and pledge created under the Indenture and the rights of the owners of the Bonds as described in the Indenture, and the pledge of the Trust Estate made in the Commodity Swap, the Authority has not otherwise pledged or encumbered the Trust Estate.

(k) The execution and delivery by the Authority of the Authority Documents and the other documents contemplated hereby and by the Official Statement, and the compliance with the provisions thereof, will not conflict with or constitute on the part of the Authority a violation of, breach of or default under (i) any of the governing instruments of the Authority; (ii) any existing constitutional provision, law (including specifically the Act), statute, indenture, mortgage, lease, resolution, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority is bound; or (iii) any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Authority or any of its properties.

(l) All consents, approvals, authorizations and orders of governmental or regulatory authorities, if any, that are required for the consummation by the Authority of the transactions contemplated on the part of the Authority by the Transaction Documents have been duly obtained and remain in full force and effect, except that no representation is made as to compliance with any applicable state securities or "Blue Sky" laws.

(m) The Authority agrees to cooperate with the Purchaser and its counsel in any endeavor to qualify the Bonds for offering and sale under the securities or "Blue Sky" laws of such jurisdictions of the United States of America as the Purchaser may request; provided that in no event shall the Authority be obligated to take any action that would subject it to general service of process in any state where it is not now so subject. The Authority consents to the use by the Purchaser of the Preliminary Official Statement or drafts of the Official Statement prior to the availability of the Official Statement in obtaining such qualification, subject to the right of the Authority to withdraw such consent for cause by written notice to the Purchaser. By delivering to the Purchaser an executed copy of the Official Statement, the Authority shall be deemed to have reaffirmed the representations, warranties and covenants set forth above with respect to the Official Statement.

(n) Neither the Authority nor anyone acting on its behalf has, directly or indirectly, offered the Bonds or any similar securities of the Authority for sale to, or solicited any offer to buy the same from, anyone other than the Purchaser.

(o) The Preliminary Official Statement has been duly authorized by the Authority, the Official Statement has been duly authorized, executed and delivered by the Authority, and the Authority has consented to the use of the Preliminary Official Statement and the Official Statement by the Purchaser in connection with the offering of the Bonds.

(p) Neither the Securities and Exchange Commission nor any state securities commission has issued or, to the best of the Authority's knowledge, threatened to issue, any order preventing or suspending the use of the Preliminary Official Statement or the Official Statement.

(q) Any certificate signed by an authorized officer of the Authority delivered to the Purchaser shall be deemed a representation and warranty by the Authority to the Purchaser as to the statements made therein.

(r) The Authority has not entered into any material transaction or incurred any material liabilities other than in the ordinary course of business or as set forth in or contemplated by the Official Statement.

(s) No default, event of default or event that, with notice of lapse of time, or both, would constitute a default or event of default under any Authority Document has occurred and is continuing.

(t) To the knowledge of the Authority, there is no litigation or other proceeding pending or threatened against, or affecting the Authority, seeking to restrain or enjoin the use of the proceeds of the Bonds.

5. Payment and Delivery. At or prior to 9:00 A.M., San Francisco, California time, on February 6, 2007, or at such other time or at such other date as shall have been mutually

agreed upon by the Authority and the Purchaser in writing (the "Closing Date"), the Authority will deliver, or cause to be delivered, to or upon the order of the Purchaser, the Bonds in definitive form, duly executed and authenticated, together with the other documents herein required, and the Purchaser will accept such delivery and pay the Purchase Price (less agreed-upon disbursements) of the Bonds as set forth herein (the "Closing"). Payment for the Bonds shall be made by bank wire transfer payable to the order of the Trustee on behalf of the Authority. If, at the Closing, the Authority fails to deliver the Bonds to the Purchaser as provided herein, or if, at the Closing, any of the conditions specified in Section 6 hereof shall not have been fulfilled to the satisfaction of the Purchaser, the Purchaser may elect to be relieved of any further obligations under this Bond Purchase Contract as provided in Section 7 hereof.

The Closing shall be held at the offices of Orrick, Herrington & Sutcliffe LLP bond counsel ("Bond Counsel"), in Los Angeles, California, or at such other place or places as shall have been mutually agreed upon by the Authority and the Purchaser. Unless otherwise requested by the Purchaser at or prior to the Closing, the Bonds shall be delivered as one fully registered bond for each maturity thereof (bearing CUSIP number), in the full principal amount of such maturity, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as securities depository for the Bonds, at least 24 hours prior to the Closing Date.

6. Conditions of Closing. The obligations of the Purchaser hereunder shall be subject to (i) the performance by the Authority of its obligations to be performed hereunder at and prior to the Closing or such earlier time as may be specified herein; (ii) the accuracy of the representations and warranties of the Authority contained herein as of the date hereof and as of the time of the Closing, as if made at and as of the time of the Closing; (iii) the accuracy of the representations and warranties of the Municipality contained in the certificates of the Municipality described herein as of the time of the Closing; and (iv) the following conditions, including the delivery by the Authority of such documents as are contemplated hereby in form and substance satisfactory to counsel to the Purchaser:

(a) At the time of the Closing (i) each of the Transaction Documents shall be in full force and effect and in the form approved the respective parties thereto, and none of the foregoing documents shall have been amended, modified or supplemented from the forms of such documents as of the date hereof, except as contemplated by the Official Statement or otherwise agreed to in writing by the Purchaser (the Closing in all events to be deemed such approval); (ii) the Authority shall have duly adopted and there shall be in full force and effect such additional resolutions, in addition to the Authority Resolution, as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated hereby; (iii) the net proceeds of the sale of the Bonds shall be deposited and applied as described in the Official Statement, and (iv) the Customer Insurance Policy Provider shall have issued the Customer Insurance Policy and delivered the same to the Trustee.

(b) At the Closing, the Authority shall deliver the Bonds as provided in this Bond Purchase Contract.

(c) At or prior to the Closing, the Purchaser shall have received the following documents in such number of counterparts as shall be mutually agreeable to the Purchaser and the Authority:

(i) The Transaction Documents, each duly executed by the parties thereto;

(ii) The unqualified, approving opinion of Bond Counsel, dated the Closing Date and addressed to (or with a letter permitting reliance on such opinion by) the Authority and the Purchaser, in substantially in the form of Appendix E attached to the Official Statement.

(iii) A supplemental opinion of Bond Counsel, dated the Closing Date, addressed to the Purchaser, in substantially the form of Exhibit A attached hereto.

(iv) An opinion of the counsel to the Authority dated the Closing Date and addressed to the Purchaser, to the effect that: (A) the Authority is duly organized and validly existing under the Constitution and laws of the State; (B) the Authority Resolution approving and authorizing the execution and delivery of the Authority Documents was duly adopted at a meeting of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed; (C) no material litigation is pending, with service of process having been accomplished or, to the knowledge of the Authority, threatened, concerning the validity of the Bonds, the corporate existence of the Authority, or the title of the officers of the Authority who will execute the Bonds as to their respective offices; (D) the execution and delivery of the Authority Documents and the Official Statement, the adoption of the Authority Resolution, the issuance of the Bonds and compliance by the Authority with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party (and of which such counsel is aware after reasonable investigation) or by which it is bound (and of which such counsel is aware after reasonable investigation) or by any existing law, regulation, court order or consent decree to which the Authority is subject; (E) the Official Statement has been duly authorized, executed and delivered and the Bonds and the Authority Documents each have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Authority enforceable in accordance with the respective terms (subject in each case to principles of equity and to any applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally from time to time in effect); and (F) no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the

Authority Documents, the valid issuance of the Bonds or for the adoption of the Authority Resolution which has not been obtained.

(v) An opinion of counsel to the Municipality, dated the Closing Date and addressed to the Authority and the Purchaser satisfactory in form and substance to Bond Counsel, the Authority and the Purchaser, to the effect that: (A) the Supply Agreement has been duly authorized, executed and delivered by the Municipality and constitutes the valid, legal and binding agreement of the Municipality enforceable in accordance with its terms (subject to principles of equity and to any applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally from time to time in effect); (B) the Municipality is a charter city duly organized and validly existing under the laws of the State; (C) the Municipality Resolution approving and authorizing the execution and delivery of the Supply Agreement has been duly adopted, and the Authority Resolution is in full force and effect and has not been modified, amended or rescinded.

(vi) The opinion of Nixon Peabody LLP, San Francisco, California, counsel for the Purchaser, dated the Closing Date and addressed to the Purchaser, substantially to the effect that (i) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended, provided that no opinion is expressed with respect to the Customer Insurance Policy; and (ii) assuming the due authorization, execution and delivery of the Continuing Disclosure Certificate by the Municipality and the enforceability thereof, the Continuing Disclosure Certificate satisfies (b)(5)(i) of Rule 15c2-12, for an undertaking for the benefit of the owners of the Bonds to provide the information in the manner and at the times required by Rule 15c2-12. In addition, such counsel shall state in its letter containing the foregoing opinion, or in a separate letter dated the Closing Date, that, in such counsel's capacity as counsel to the Purchaser, to assist the Purchaser in part of its responsibility with respect to the Official Statement, such counsel participated in conferences with representatives of the Purchaser and representatives of the Authority, the Municipality, Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, and others, during which the contents of the Official Statement and related matters were discussed and that based upon the participation of such Purchaser's Counsel in the above-mentioned conferences, and in reliance thereon and on the records, documents, certificates and opinions mentioned in such letter, during the course of their representation of the Purchaser on this matter, no facts came to their attention which caused them to believe that the Official Statement as of its date or as of the date of such letter (except for any financial, statistical, economic, demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, the Appendices thereto, or any information about book-entry, tax exemption, DTC, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement, the Gas Supplier, the Commodity Swap, the Seller Swap Agreement, the Swap Counterparty, the Seller Guarantee, the Funding Guarantee and the Guarantor included or referred to

therein, which such counsel to the Purchaser may expressly exclude from the scope of such letter and as to all of which such counsel need express no opinion or view), contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that such Purchaser's Counsel need not pass on or undertake to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, and need make no representation concerning the accuracy, completeness or fairness of such statements.

(vii) A certificate of the Authority, dated the Closing Date and signed by a duly authorized officer of the Authority, to the effect that the representations of the Authority contained in Section 4 hereof are true and correct as of the Closing Date, and covering such other matters as the Purchaser and its counsel may reasonably request;

(viii) A certificate of the Municipality, dated the Closing Date and signed by a duly authorized officer of the Municipality, to the effect that:

(a) The Municipality is a municipal corporation and chartered city of the State, duly established and existing under its charter and the laws of the State and has the power and authority to own its property and to carry on its electric utility business as now conducted;

(b) The information contained in the Official Statement relating to the Municipality is, and at all times subsequent hereto to and including the date of the Closing will be, true and correct in all material respects and does not contain and, at all such times, will not contain any untrue statement of a material fact and does not omit and, at all such times, will not omit, to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(c) The Municipality has duly authorized all actions required to be taken by it for the approval, execution, delivery and due performance of the Supply Agreement;

(d) Except as is described in the Preliminary Official Statement and the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending (*i.e.*, as to which the Municipality has received service of process) or, to the knowledge of the Municipality, threatened against or affecting the Municipality (or, to the knowledge of the Municipality, any meritorious basis therefor) (i) attempting to limit, enjoin or otherwise restrict or prevent the Municipality from functioning or contesting or questioning the existence of the Municipality or the titles of the present

officers of the Municipality to their offices or (ii) wherein an unfavorable decision, ruling or finding would (A) materially adversely affect the existence or powers of the Municipality or the validity or enforceability of the Supply Agreement; or (B) materially adversely affect (1) the financial condition or results of operations of the electric utility system of the Municipality; or (2) the transactions contemplated hereby or by the Official Statement;

(e) The Municipality's obligation to pay the Contract Price for gas delivered pursuant to the Supply Agreement will be classified as an operation and maintenance cost of its electric utility system; operation expenses, which also include payments for electric generation and transmission service to joint action agencies in which the Municipality's electric utility system participates, are payable prior to outstanding obligations of the Municipality payable from net revenues of the electric utility system; and

(f) The financial statements of the Municipality contained as Appendix B to the Official Statement fairly present the financial position and results of operations of the Municipality as of the dates and for the periods therein set forth in accordance with generally accepted accounting principles applied consistently; and as of the date hereof, except as expressly set forth in the Official Statement, there has been no material adverse change in the financial condition or results of operations of the electric utility system of the Municipality since the date of such financial statements.

(ix) Such opinions, certificates, documents or other instruments as are required to be delivered by any party or its counsel at or prior to the Closing under the terms of (a) the Commodity Swap, (b) the Prepaid Gas Agreement and (c) the Supply Agreement, which shall in each case be in form and substance satisfactory to the Purchaser.

(x) An opinion of counsel to the Customer Insurance Policy Provider, dated the Closing Date and addressed to the Authority, the Trustee and the Purchaser, to the effect that the Customer Insurance Policy is a valid and binding obligation of the Customer Insurance Policy Provider.

(xi) Certificates of each of the Swap Counterparty, the Gas Supplier, the Guarantor and the Customer Insurance Policy Provider as to the accuracy of the information relating to such party contained in the Official Statement.

(xii) A non-arbitrage certificate of the Authority in form and substance satisfactory to the Purchaser.

(xiii) A copy of the Official Statement of the Authority executed on behalf of the Authority by a duly authorized officer thereof.

(xiv) Certified copies of the Authority Resolution and any other resolution or similar approval of the Authority authorizing the issuance, sale, execution and delivery of the Bonds and authorizing the execution, delivery and performance of the Authority Documents and authorizing the use of the Preliminary Official Statement and the Official Statement by the Purchaser in connection with the offering and sale of the Bonds.

(xv) Certified copies of the resolution or ordinance of the Municipality or similar approval of the Municipality (the "Municipality Resolution") authorizing the execution, delivery and performance of the Supply Agreement and authorizing the use of information relating to the Municipality and the financial statements of the Municipality in the Preliminary Official Statement and the Official Statement used by the Purchaser in connection with the offering and sale of the Bonds.

(xvi) An incumbency certificate of the Authority.

(xvii) An incumbency certificate of the Municipality.

(xviii) Written evidence that S&P, Moody's and Fitch have issued credit ratings of "AA-," "Aa3" and "AA-," respectively, for the Bonds.

(xix) A certificate of an officer of the Trustee, in form and substance satisfactory to the Purchaser, acknowledging receipt of a copy of the Indenture and stating that the Trustee has the corporate power and is duly authorized to act as Trustee under the Indenture and has executed and delivered its acceptance of its duties as Trustee thereunder and certifying as to the incumbency and signatures of the officer or officers of the Trustee executing such acceptance.

(xx) A complete Internal Revenue Service form 8038-G with respect to the Bonds.

(xxi) Such additional legal opinions, certificates proceedings, instruments and other documents as counsel for the Purchaser may reasonably request to evidence compliance by the Authority, the Municipality or the Trustee with legal requirements, the truth and accuracy, as of the time of Closing, of the representations of the Authority herein contained and the due performance or satisfaction by the Authority or the Municipality, at or prior to the Closing, of all agreements then required to be performed and all conditions then required to be satisfied by such parties, as applicable.

7. Additional Conditions to Closing. The Purchaser shall have the right to cancel its obligations to purchase and accept delivery of the Bonds hereunder by notifying the Authority, in writing or by telegram or telecopy, of their election to do so between the date hereof and the Closing if, on or after the date hereof and prior to the Closing:

(a) legislation shall be enacted, or actively considered for enactment by the Congress, with an effective date prior to the Closing Date, or a decision by a court of the

United States shall be rendered, or a ruling or regulation by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, the effect of which is that (i) the Bonds are not exempt from the registration requirements of the Securities Act of 1933, as amended and as then in effect (the "1933 Act"), or the 1934 Act, or (ii) the Indenture is not exempt from the registration, qualification or other requirements of the Trust Indenture Act of 1939, as amended and as then in effect (the "TIA"); or

(b) a stop order, ruling or regulation by the Securities and Exchange Commission shall be issued or made, the effect of which is that the issuance, offering or sale of the Bonds, as contemplated herein or in the Official Statement, is in violation of any provision of the 1933 Act, the 1934 Act, or the TIA; or

(c) any event shall have occurred or shall exist that, in the reasonable opinion of the Purchaser, either (i) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement (other than any statement or information provided by the Purchaser), or (ii) is not reflected in the Official Statement and should be reflected therein in order to make the statements and information contained therein not misleading in any material respect and, in either such event, the Authority refuses to permit the Official Statement to be supplemented to correct or supply such statement or information, or the effect of the Official Statement as so corrected or supplemented is, in the reasonable judgment of the Purchaser, to materially adversely affect the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Purchaser of the Bonds; or

(d) there shall occur any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Purchaser, impractical or inadvisable to proceed with the offering or delivery of the Bonds as contemplated by the Official Statement (exclusive of any amendment or supplement thereto); or

(e) legislation shall be enacted by the Congress of the United States, or be introduced for enactment by any committee of the Congress, or recommended to the Congress for passage by the President of the United States, or favorably reported for passage to either House of the Congress by a committee of such House to which such legislation has been referred for consideration, a decision shall be rendered by a court of the United States or by the United States Tax Court, or a ruling or regulation shall be made or proposed to be made by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency, in any case with respect to federal taxation upon (i) revenues or other income of the general character to be derived by the Authority or by any similar body, or (ii) interest on the Bonds or similar obligations that, in the reasonable opinion of the Purchaser, materially and adversely affects the market price of the Bonds or the market price generally of obligations of the general character of the Bonds; or

(f) trading shall be suspended, or new or additional trading or loan restrictions shall be imposed, by the New York Stock Exchange or other national securities exchange or governmental authority with respect to obligations of the general character of the Bonds; or

(g) there shall have occurred any change in the financial condition or affairs of the Authority, the Municipality, the Customer Insurance Policy Provider, the Gas Supplier, the Guarantor or any other party the effect of which, in the reasonable judgment of the Purchaser, is so material and adverse as to make it impracticable or inadvisable to proceed with the offering or delivery of the Bonds on the terms and in the manner contemplated by the Official Statement; or

(h) S&P, Moody's or Fitch shall have taken any action to lower, suspend or withdraw its credit rating of "AA-," "Aa3" or "AA-," respectively, for the Bonds; or

(i) a general banking moratorium is declared by federal, State or New York authorities, the effect of which on the financial markets of the United States is, in the reasonable judgment of the Purchaser, to materially adversely affect the market for the Bonds or the sale, at the contemplated offering price or prices (or yield or yields), by the Purchaser of the Bonds; or

(j) any litigation shall be instituted, pending or threatened to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or questioning any authority for or the validity of the Transaction Documents or the money or revenues pledged to the payment thereof, or any of the proceedings of the Authority, the Trustee or the Municipality taken with respect to the issuance and sale thereof; or

(k) the Official Statement is not executed and delivered in accordance with the seventh paragraph of this Bond Purchase Contract.

If the Authority is unable to satisfy the conditions to the obligations of the Purchaser contained in this Bond Purchase Contract, or if the obligations of the Purchaser to purchase and accept delivery of the Bonds shall be terminated for any reason permitted by this Bond Purchase Contract, this Bond Purchase Contract shall terminate and neither the Purchaser nor the Authority shall be under any further obligation hereunder; except that the respective obligations to pay expenses, as provided in Section 8 hereof, shall continue in full force and effect. The Purchaser may, in its discretion, waive any one or more of the conditions imposed by this Bond Purchase Contract for the protection of the Purchaser and proceed with the Closing.

The Authority agrees to notify the Purchaser of any material adverse change in the business, properties or financial condition, and to the best of its knowledge the business, properties or financial condition of the electric utility system of the Municipality, occurring before the Closing or within 90 days thereafter that would require a revision of the information in the Official Statement in order to make the representations set forth in Section 4 hereof with respect to the Authority, or the representations set forth in any resolution, ordinance or certificate with respect to the Municipality made in connection with the Bonds, true and correct during such period.

All representations, warranties and, with respect to the information in the Official Statement, the agreements of the Authority set forth in or made pursuant to this Bond Purchase Contract shall remain operative and in full force and effect, regardless of any investigations made by or on behalf of the Purchaser and shall survive the delivery of and payment for the Bonds.

All representations, warranties and agreements of the Municipality set forth in or made pursuant to this Bond Purchase Contract shall remain operative and in full force and effect, regardless of any investigations made by or on behalf of the Purchaser and shall survive the delivery of and payment for the Bonds.

8. Payment of Expenses. The Authority shall pay, to the extent not paid out of the proceeds of the Bonds, any expenses incident to the performance of its obligations hereunder including but not limited to: (i) the cost of the preparation, reproduction, printing, electronic posting, distribution, mailing, execution, delivery, filing and recording, as the case may be, of the Transaction Documents, the Preliminary Official Statement and the Official Statement; (ii) the cost of the preparation, engraving, printing, execution and delivery of the definitive Bonds; (iii) the fees and disbursements of Bond Counsel and the fees and disbursements of counsel for the Trustee, and any other consultants, attorneys, financial advisors or other experts retained by the Authority; (iv) the initial or acceptance fee of the Trustee; (v) the premium for the Customer Insurance Policy, (vi) any fees charged by the rating agencies for the rating of the Bonds; (vii) the cost of transportation and lodging for officials and representatives of the Authority in connection with attending meetings and the Closing; and (viii) the cost of qualifying the Bonds and determining their eligibility for investment under the laws of such jurisdictions as the Purchaser may designate, including filing fees and fees and disbursements of counsel for the Purchaser in connection with such qualification and determination and the preparation of Blue Sky Memoranda.

The Purchaser shall pay from the underwriters' discount (i) the cost of preparing and publishing all advertisements relating to the Bonds upon commencement of the offering of the Bonds; (ii) the cost of the transportation and lodging for officials and representatives of the Purchaser to attend meetings and the Closing; (iii) the cost of obtaining a CUSIP number assignment for the Bonds; (iv) the fees and expenses of Purchaser's Counsel; the costs of any Blue Sky Memoranda; and (vi) all other regulatory fees and operational expenses associated with the marketing or underwriting of the Bonds.

9. Parties in Interest. This Bond Purchase Contract shall inure to the benefit of and be binding upon the Authority and the Purchaser and their respective successors and assigns. Nothing in this Bond Purchase Contract is intended or shall be construed to give any person, firm or corporation, other than the parties hereto and their respective successors and assigns, any legal or equitable right, remedy or claim under or in respect of this Bond Purchase Contract or any provision herein contained. This Bond Purchase Contract and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the parties hereto and their respective successors and assigns, and for the benefit of no other person, firm or corporation. No person or entity who purchases the Bonds from the Purchaser or other person or entity shall be deemed to be a successor merely by reason of such purchase.

10. Notices. Any notice or other communication to be given to the Authority under this Bond Purchase Contract may be given by delivering the same in writing at its address set forth above, and any notice or other communication to be given to the Purchaser under this Bond Purchase Contract may be given by delivering the same in writing to:

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Global Markets and Investment Banking
101 California Street
San Francisco, CA 94111
Facsimile: 415-676-3351
Attention: Ed Burdett, Managing Director

together with a copy to:

Nixon Peabody LLP
Attention: Daniel A. Deshon
2 Embarcadero Center
Suite 2700
San Francisco, CA 94111
Facsimile: 415-984-8300

11. Governing Law. This Bond Purchase Contract shall be governed by and construed in accordance with the laws of the State of California.

12. Counterparts. This Bond Purchase Contract may be signed in any number of counterparts, each of which shall be an original, but all of which shall constitute but one and the same instrument.

(Signatures appear on the following page)

This Bond Purchase Contract shall become effective upon your acceptance and execution hereof.

Very truly yours,

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By Gregory E. Dawley
Name: Gregory E. Dawley
Title: Vice President

Accepted and agreed to as of the date first above written:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By_____
Name:
Title:

This Bond Purchase Contract shall become effective upon your acceptance and execution hereof.

Very truly yours,

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By_____
Name:
Title:

Accepted and agreed to as of the date first above written:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By W. Craig Robinson
Name: W. Craig Robinson
Title: Executive Director

Schedule I

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

Maturity Dates, Principal Amounts, Interest Rates, Yields and CUSIP Numbers

Maturity (February 15)	Principal Amount	Interest Rate	Yield	CUSIP
2009	$ 6,645,000	4.000%	3.770%	777863AA9
2010	6,650,000	4.000	3.830	777863AB7
2011	6,915,000	5.000	3.850	777863AC5
2012	7,265,000	5.000	3.880	777863AD3
2013	7,675,000	5.000	3.930	777863AE1
2014	8,030,000	5.000	3.970	777863AF8
2015	8,435,000	5.000	4.000	777863AG6
2016	8,860,000	5.000	4.050	777863AH4
2017	9,345,000	5.000	4.090	777863AJ0
2018	9,780,000	5.000	4.130	777863AK7
2019	10,275,000	5.000	4.160	777863AL5
2020	10,800,000	5.000	4.190	777863AM3
2021	11,385,000	5.000	4.220	777863AN1
2022	11,920,000	5.000	4.240	777863AP6
2023	12,520,000	5.000	4.260	777863AQ4
2024	13,155,000	5.000	4.280	777863AR2
2025	13,865,000	5.000	4.290	777863AS0
2026	14,530,000	5.000	4.310	777863AT8
2027	15,265,000	5.000	4.330	777863AU5
2028	16,035,000	5.000	4.340	777863AV3

Exhibit A to Bond Purchase Contract

FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

February 6, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as underwriter
101 California Street
San Francisco, CA 94111

Re: Roseville Natural Gas Financing Authority
Gas Revenue Bonds, Series 2007
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Underwriter, pursuant to Section 6(c)(iii) of the Bond Purchase Contract, dated January 24, 2006 (the "Bond Purchase Contract"), between you and the Roseville Natural Gas Financing Authority (the "Authority"), providing for the purchase of the Authority's $209,350,000 Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture or, if not defined in the Indenture, the Bond Purchase Contract.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the Authority. You may rely on such opinion as though the same were addressed to you.

In connection with our role as bond counsel, we have reviewed the Bond Purchase Contract, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement and the documents, certificates, opinions and matters mentioned in the second paragraph of our Bond Opinion, and such other documents, opinions and matters to the extent we deemed necessary to express the opinions set forth in the numbered paragraphs below.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court 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 or any other matters come to our attention after the date

hereof. We have not reviewed any electronic version of the Official Statement, and assume that such version is identical in all respects to the printed version. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, 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 third paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Tax Agreement, the Bond Purchase Contract, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any real or personal property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statements or other offering material relating to the Bonds and express no opinion relating thereto except as expressly set forth below.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended. No opinion is expressed with respect to the Securities Act of 1933, as amended, as to the Prepaid Gas Agreement, the Guarantee, the Funding Agreement, the Funding Guarantee, the Customer Insurance Policy or the Forward Purchase Agreement.

2. The Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

3. The statements contained in the Official Statement under the captions "THE TERMS OF THE BONDS," "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS," "THE GAS SUPPLY ACQUISITION," and "TAX MATTERS," excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement or our opinion as to certain tax matters relating to the Bonds, are accurate in all material respects; provided, however, that no opinion is expressed with respect to any statements relating to The Depository Trust Company ("DTC"), DTC's operations or book-entry system, the Swap Counterparty or the Seller Swap Agreement.

This letter is furnished by us as bond counsel. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. Our

engagement with respect to the Bonds has concluded with their issuance. We disclaim any obligation to update this letter. This letter is delivered to you as the Underwriter of the Bonds, is solely for your benefit as such Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon by you for any other purpose. This letter is not intended to, and may not, be relied upon by owners of the Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

By:_____

CONTINUING DISCLOSURE CERTIFICATE

CITY OF ROSEVILLE, CALIFORNIA

relating to:

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS, SERIES 2007

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF ROSEVILLE (the "City"), for and on behalf of itself and the Roseville Natural Gas Financing Authority (the "Authority"), in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered by The Bank of New York Trust Company, N. A., as trustee (the "Trustee"), in accordance with a Trust Indenture, dated as of February 1, 2007 (the "Indenture"), by and between the Authority and the Trustee. 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 registered and beneficial owners of the Bonds and in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth 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 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.

"*Dissemination Agent*" means The Bank of New York Trust Company, N. A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as they may be designated from time to time pursuant to the Rule. Any filing under this Disclosure Certificate with a National Repository may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

"*Official Statement*" means the Official Statement relating to the Bonds.

"*Purchaser*" means Merrill Lynch & Co., the initial purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Report Date*" means seven months after the end of the City's fiscal year, (currently January 31 of each year based on the City's June 30 fiscal year end).

"*Repository*" means each National Repository and each State Repository.

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

"*State Repository*" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Report Date, beginning on January 31, 2008, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee, Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy) and the Purchaser. Not later than 15 Business Days before the Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). 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. The audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Report Date, if not available by the Report 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 and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City under this Disclosure Certificate.

(b) If the City is unable to provide to the Repositories an Annual Report by the Report Date, the City shall, by written direction, cause the Dissemination Agent to provide to each Repository and to the Municipal Securities Rulemaking Board and each State Repository (with a copy to the Trustee and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy)) a notice, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Report Date the name and address of each National Repository and each State Repository, if any; 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, stating the date it was provided and listing all the Repositories to which it was provided.

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

(a) Audited Financial Statements of the City, which shall include financial statements of the City's municipal electric power utility (the "Electric System") 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 City's audited financial statements are not available by the 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 prior to the Report Date, the following financial information and operating data with respect to the City and the Electric System for the preceding fiscal year as of June 30 of the previous fiscal year:

(1) The principal amount of the outstanding Bonds.

(2) The balance in the Rate Stabilization Fund.

(3) An updated table substantially in the form of Table 1 in Exhibit A to the Official Statement entitled "Customers, Sales and Demand."

(4) An updated table substantially in the form of Table 2 in Exhibit A to the Official Statement entitled "Ten Largest Customers."

(5) An updated table substantially in the form of Table 3 in Exhibit A to the Official Statement entitled "Sources of Power Supply."

(6) An updated table substantially in the form of Table 7 in Exhibit A to the Official Statement entitled "City Share of Outstanding Joint Powers Agencies Debt."

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 have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

(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.

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:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.

(vii) Modifications to rights of Bond owners.

(viii) Contingent or unscheduled prepayment of Bonds.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) 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, by written direction, cause the Dissemination Agent to promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee, the Purchaser and the Financial Security Assurance Inc. (as the provider of the Customer Insurance Policy), together with written direction to the Trustee whether or not to notify the Bond owners of the filing of such notice. In the absence of any such direction, the Trustee shall not send such notice to the Bond owners. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment 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 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N. A. Any Dissemination Agent may resign by providing 30 days' written notice to the City and the Trustee.

Section 8. 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 owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the registered 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 of this Section, the first annual financial information filed pursuant to this Disclosure Certificate 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 sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. 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 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Purchaser or the owners of at least 25 percent aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee 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 Indenture, 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 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee 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 and the Trustee, their 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 or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, but shall terminate upon the termination of the City's obligations under this Disclosure Certificate pursuant to Section 6 of this Disclosure Certificate.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the City:	City of Roseville 311 Vernon Street Roseville, California 95678 Attention: Administrative Services Director Fax: (916) 774-5514
To the Trustee:	The Bank of New York Trust Company, N.A. 550 Kearny Street, Suite 600 San Francisco, California 94108 Attention: Corporate Trust Department Fax: (415) 399-1647
To the Purchaser:	Merrill Lynch & Co. Global Markets and Investment Banking 101 California Street San Francisco, CA 94111 Attention: Mr. Ed Burdett, Managing Director Fax: (415) 676-3351

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Purchaser and registered 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: February 6, 2007

CITY OF ROSEVILLE

By: _____
Authorized Representative

ACCEPTED AND AGREED:

The Bank of New York Trust Company, N. A.,
as Dissemination Agent

By: _____
Authorized Representative

10230643.2

Date: February 6, 2007

CITY OF ROSEVILLE

By: _____
Authorized Representative

ACCEPTED AND AGREED:

The Bank of New York Trust Company, N. A.,
as Dissemination Agent

By: _____
Authorized Representative

10230643.2

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	CITY OF ROSEVILLE
Name of Issue:	$209,350,000 Roseville Natural Gas Financing Authority Gas Revenue Bonds, 2007 Series A
Date of Issuance:	February 6, 2007

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 as of _____, 2007. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT

By: _____

Title:

cc: Trustee

10230643.2

TAX CERTIFICATE AND AGREEMENT

The Roseville Natural Gas Financing Authority (the "Authority") hereby makes the following representations of facts and expectations and covenants to comply with the requirements of this Tax Certificate and Agreement, dated February 6, 2007 (the "Tax Certificate"), in connection with the execution and delivery of $209,350,000 aggregate principal amount of its Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of February 1, 2007 (the "Indenture"), between the Authority and The Bank of New York Trust Company N.A., as trustee (the "Trustee"). These representations and covenants of the Authority are made in furtherance of Section 7.11 of the Indenture and, in part, pursuant to Treasury Regulations § 1.148-2(b)(2)(i). Representations and covenants of the City of Roseville, California (the "City") are made in furtherance of Section 22.19 of the Supply Agreement (as defined in Section 1.7 herein) and, in part, pursuant to Treasury Regulations § 1.148-2(b)(2)(i).

I.

GENERAL PROVISIONS; DEFINITIONS

1.1 Purpose of Tax Certificate. The Authority is delivering this Tax Certificate to Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), with the understanding and acknowledgement that Bond Counsel will rely upon this Tax Certificate, among other matters, in rendering its opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code").

1.2 The Authority. The Authority is issuing the Bonds pursuant to the Indenture as a joint powers agency established pursuant to the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, and that certain Joint Exercise of Powers Agreement, dated as of November 1, 2006, by the City and the Redevelopment Agency of City of the Roseville (the "Agency"). The City is a municipal corporation and the Agency is a redevelopment agency, both duly organized and existing under and by virtue of the laws of the State of California. Both the City and the Agency have the general authority to exercise the power of eminent domain in furtherance of its governmental purposes.

The city council of the City serves as the board of directors of the Authority. The City is making certain representations and covenants in connection with the Bonds, as set forth in Exhibit A attached hereto.

The Authority hereby certifies, represents, covenants and warrants that (i) the Authority has been created pursuant to a law of the State of California, (ii) the Authority was established for a public purpose, (iii) the Authority is governed by a body controlled ultimately by the elected representatives of the City, (iv) the Authority is authorized to issue obligations such as the Bonds for the public purposes for which the Authority was established, (v) the earnings of the Authority will not and cannot inure to the benefit of any private person and (vi) upon dissolution of the Authority, title to all of the Authority's assets will revert to the City.

1.3 Delivery of the Bonds. The Authority is delivering the Bonds to Merrill Lynch, Pierce, Fenner & Smith Incorporated, as underwriter of the Bonds (the "Underwriter") on the date hereof in exchange for good funds.

1.4 Purpose of Financing. The Bonds are being issued to (i) provide funds to make the prepayment required under the Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "Prepayment Agreement"), between the Authority and Merrill Lynch Commodities, Inc. (the "Gas Supplier"), (ii) provide for the payment of certain capitalized interest relating to the Bonds through February 15, 2008, and (iii) pay costs of issuing the Bonds, including the premium on the Insurance (as such term is defined in Section 1.7 herein).

1.5 Reliance on Other Parties. The representations and expectations of the Authority and the City concerning certain matters described herein are based in whole or in part upon representations and certifications of other parties set forth in this Tax Certificate or exhibits hereto. The Authority and the City are not aware of any facts or circumstances that would cause either party to question the accuracy or reasonableness of any representation or certification made in this Tax Certificate or the exhibits hereto.

1.6 Separate Issue/Single Issue. The Authority and the Underwriter entered into a binding contract to sell and purchase all of the Bonds on January 24, 2007 (the "Sale Date"). All of the Bonds have all been sold pursuant to the same plan of financing, and are reasonably expected to be paid from substantially the same source of funds. Accordingly, the Bonds will be treated as a single issue for tax purposes. No other governmental obligations expected to be paid from substantially the same source of funds have been sold less than 15 days before or after the Sale Date, pursuant to the same plan of financing as the Bonds.

1.7 Definitions. Unless the context otherwise requires, all capitalized terms used in this Tax Certificate but not defined herein shall have the same meaning as in the Indenture or, if not defined therein, in the Prepayment Agreement.

Adjusted Gross Proceeds means Gross Proceeds, adjusted as set forth in Treasury Regulations, §1.148-7(c)(3). Thus, Adjusted Gross Proceeds generally means Gross Proceeds, less the amounts held in the Bona Fide Debt Service Funds.

Bona Fide Debt Service Fund means, to the extent the requirements of Section 4.5.1 hereof are satisfied, the Debt Service Fund, the Termination Fund, the Redemption Fund and the Revenue Fund (to the extent used to make transfers to the Debt Service Fund).

Bond Year means the period beginning on the Closing Date and ending on the first anniversary of the Closing Date and each succeeding one-year period (with the last Bond Year ending on the first date that none of the Bonds remain outstanding for federal tax purposes). The Authority (prior to the fifth anniversary of the Closing Date) may select any date prior to the first anniversary of the Closing Date in lieu of the first anniversary of the Closing Date as the end of each Bond Year.

Closing Date means February 6, 2007, the date of the physical delivery of the Bonds against payment of the Sale Proceeds.

Disqualified Person means any person, including the federal government and its agencies and instrumentalities, other than a State or political subdivision thereof.

Financial Advisor means McDonald Partners, Inc.

Forward Delivery Agreement means the debt service forward delivery agreement described in Section 6.5.5 herein.

Gross Proceeds has the meaning used in Treasury Regulations § 1.148-1(b), and generally means all proceeds derived from or relating to the Bonds, including Investment Proceeds, amounts pledged to pay debt service on the Bonds, and amounts expected to be used to pay debt service on the Bonds.

Insurance means that certain financial guaranty insurance policy issued by the Insurer, unconditionally guaranteeing the City's payments for Gas delivered (or deemed delivered) pursuant to the Supply Agreement.

Insurer means Financial Security Assurance Inc.

Investment Proceeds means amounts earned from the investment or reinvestment of Proceeds.

Investment Property means any security or obligation (other than a Tax-Exempt Obligation), any annuity contract, or any other investment-type property.

Minor Portion means any amount of Gross Proceeds, not greater than $100,000, that is invested at an unrestricted yield pursuant to Section 148(e) of the Code.

Net Sale Proceeds means the amount of Sale Proceeds, less any portion of such Sale Proceeds invested as part of the Minor Portion.

Nonpurpose Investment means any Investment Property in which Gross Proceeds are invested.

Opinion of Counsel means an opinion of counsel nationally recognized in the area of municipal finance selected by the Authority to the effect that an action or inaction will not impair the exclusion of the interest payable with respect to the Bonds from gross income for purposes of federal income taxation.

Proceeds means Sale Proceeds and Investment Proceeds.

Qualifying User has the meaning set forth in the Supply Agreement.

Rebate Requirement means the amount of rebatable arbitrage earned with respect to Gross Proceeds which do not qualify for an exception from the requirements of Section 148(f)(2) of the Code as described in Section 5.3 of this Tax Certificate, computed as of the last day of any Bond Year, pursuant to §1.148-3 of the Treasury Regulations.

Related Person means:

(i) In the case of a 501(c)(3) corporation, any organization that, directly or indirectly, controls or is controlled by the 501(c)(3) corporation or is part of a group that is commonly controlled.

(ii) In the case of a corporation other than a 501(c)(3) corporation, (A) an individual who owns directly or indirectly more than 50% in value of the outstanding stock of the corporation; (B) a partnership, if any partner owns more than 50% in value of the outstanding stock of the corporation; (C) another corporation, if that corporation owns more than 50% of the capital or profits interests in the partnership and more than 50% of the voting power or value of the corporation; (D) another corporation, if more than 50% of the voting power or value of its stock is owned by the corporation; (E) another corporation, if five or fewer individuals own stock possessing more than 50% of the voting power or value of both that corporation and the corporation; (F) an S corporation, if the same individual owns more than 50% in value of both the S corporation and the corporation; or (G) a trust or its grantor, either of which owns more than 50% in value of the outstanding stock of the corporation.

(iii) In the case of a partnership, (A) a partner that owns directly or indirectly more than 50% of the capital interest or the profits interest in such partnership; (B) another partnership, if the same person or persons own directly or indirectly more than 50% of the capital interest or the profits interest in both that partnership and the partnership; or (C) an S corporation, if the same person or persons own more than 50% of the capital interest or the profits interest in the partnership.

(iv) In the case of an individual, (A) members of the individual's family (including the individual's spouse, brothers, sisters, ancestors and lineal descendants); (B) a corporation more than 50% in value of the outstanding stock of which is owned directly or indirectly by or for such individual; (C) a partnership, if the individual owns directly or indirectly more than 50% of the capital interest or the profits interest in such partnership; or (D) a trust as to which the individual is either grantor or beneficiary, or which has the same grantor as a trust to which the individual is beneficiary.

Sale Proceeds means the amount received from the sale of the Bonds, $224,804,116.15, being the par amount of the Bonds ($209,350,000.00), plus original issue premium of $15,454,116.15.

Supply Agreement means the Natural Gas Supply Agreement, dated as of February 1, 2007, between the City and the Authority.

Tax-Exempt Obligation means any obligation the interest on which is excludable from gross income under Section 103(a) of the Code, any interest in a regulated investment company the income of which is at least 95% excludable to the holder under Section 103(a) of the Code, and any certificate of indebtedness issued by the United States Treasury pursuant to the Demand Deposit State and Local Government Series program, but does not include any interest in a "specified private activity bond" within the meaning of Section 57(a)(5)(C) of the Code.

Three-Year Temporary Period means, as set forth in Treasury Regulations, §1.148-2(e)(2), the three-year temporary period exception to the yield restriction requirement of Code Section 148(a), which exception applies only to the extent that the Authority reasonably expects that (i) 85% of the Net Sale Proceeds are to be allocated to capital expenditures by the end of the three-year period following the issue date; (ii) the Authority will within six months of the issue date incur a substantial binding obligation to a third party to expend at least five percent (5%) of the Net Sale Proceeds on capital projects; and (iii) the allocation of the Net Sale Proceeds to capital expenditures will proceed with due diligence.

Unremediated Gas Sale has the meaning set forth in Section 2.4 herein.

II.

USE OF GAS

2.1 Investment Type Property. Sale Proceeds in the amount of $212,661,363.06 are being deposited into the Project Fund and will be used on the Closing Date to fund the prepayment required under the Prepayment Agreement.

(a) Pursuant to the Prepayment Agreement, the Gas Supplier has agreed to deliver specified daily quantities of Gas each month over a 20-year period, and the Authority has agreed to make a lump sum fixed prepayment to the Gas Supplier for all of the cost of the Gas.

(b) The Authority represents that the price of the Gas as set forth in the Prepayment Agreement is not greater than the fair market value of such Gas at the time the Prepayment Agreement was entered into, taking into account forward market prices of gas as of January 24, 2007 (the date the Authority and the Gas Supplier entered into an agreement to fix the price of the Gas) for the term of the Prepayment Agreement, and using an appropriate taxable market discount rate as of the Sale Date for the prepayment. The price of the Gas was not affected by the availability of the Commodity Swap described in Section 2.5 hereof. The Gas Supplier has made certain representations in Exhibit B, attached hereto, relating to the pricing of the Gas. See also, the representations of the Financial Advisor regarding the pricing of the Gas, attached hereto as Exhibit E.

(c) The Authority has also entered into the Supply Agreement to sell all of the Gas acquired pursuant to the Prepayment Agreement to the City. The City owns and operates a municipal electrical utility. The City reasonably expects that more than 90% of the Gas acquired pursuant to the Prepayment Agreement will be used by the City's electric system to produce electricity that will be furnished to retail electric customers of the City who are located in the electricity service area of the City. As used herein, the term "service area" means the area throughout which the City provided, (x) at all times during the five-year period ending on the Closing Date, electricity distribution service; and (y) any other area recognized as the service area of the City under state or federal law.

The City has further advised the Authority that the amount of Gas to be acquired pursuant to the Supply Agreement is approximately 53% of the City's currently expected annual natural gas requirements for the Roseville Energy Park, which is part of the City's municipal electric utility.

2.2 Private Activity Bonds. The only property which will be provided by the Proceeds is the Prepayment Agreement. The Authority will own all of the Prepayment Agreement for federal tax purposes. The Prepayment Agreement is not expected to be sold or otherwise disposed of, in whole or in part, before payment in full of the Bonds.

The Authority does not expect to sell, and shall not perform any act, enter into any agreement, or use or permit use of, the Gas acquired pursuant to the Prepayment Agreement representing more than $15,000,000 of Sale Proceeds, to or by Disqualified Persons.

In addition, the Authority has not entered, and does not expect to enter, into any arrangement with any person or organization (other than a state or local governmental unit) that provides for such person or organization to manage, operate, or provide services with respect to the Gas or the Roseville Energy Park, unless the guidelines set forth in Revenue Procedure 97-13 are satisfied, or unless otherwise approved by Bond Counsel.

2.3 Use and Delivery of Gas; Remarketing. The Prepayment Agreement sets forth the provisions of the delivery and deemed delivery of the Gas to the Authority, and the Supply Agreement sets forth the provisions for the re-delivery of such Gas by the Authority to the City.

2.3.1 Failure to Receive. In the event the Authority fails to accept delivery of any Gas that is to be delivered pursuant to the Prepayment Agreement, such Gas is nonetheless deemed delivered pursuant to the Prepayment Agreement.

2.3.2 Imbalance. For Gas delivered to the Primary Delivery Point, but not used by the Authority or the City, the applicable tariff provides for an imbalance of up to a certain "transporter imbalance tolerance." During interval periods, such Gas may be stored within the transporter's system, without charge to the Authority or City. Any such amount so stored will be treated as the first amount of gas used in the next imbalance interval. During any imbalance interval, the amount of stored Gas in excess of the tolerance is treated as sold to the operator of the system, and as a sale of Gas to a Disqualified Person. See Section 2.4 herein regarding the treatment of sales of Gas to Disqualified Persons.

2.3.3 Postponement of Delivery. Pursuant to the Prepayment Agreement, both the Gas Supplier and the Authority may request, subject to the approval of the party receiving the request, a postponement of delivery of the Gas within each month.

2.3.4 Remarketing. The Prepayment Agreement sets forth the procedures, pricing and other matters relating to the remarketing of Gas by the City, on behalf of the Authority, or the Gas Supplier, summarized as follows:

(a) The City may remarket the Gas that has been delivered or deemed delivered to the Delivery Point. Pursuant to the provisions of the Prepayment Agreement, the Authority may also request that the Gas Supplier remarket Gas on

the Authority's behalf. The City and the Gas Supplier have covenanted to obtain a Qualifying Use Certificate at the remarketing of Gas to municipal gas or electric utilities meeting the requirements of Treasury Regulations §1.148-1(e)(2) or to joint action agencies that agree to sell the Gas to municipal utilities that meet such requirements ("Qualified Users").

(b) Under certain provisions of, and upon meeting certain conditions set forth in, the Prepayment Agreement, the Gas Supplier is required to remarket the Gas on the Authority's behalf. The Gas Supplier is, under specified circumstances, required to attempt to remarket the Gas first to Qualified Users, then to all other purchasers, subject to the provisions in the Prepayment Agreement. If Gas cannot be remarketed, the Gas Supplier is required to repurchase the Gas. All such remarketing by the Gas Supplier will be as agent for the Authority and for the Authority's account.

The Authority and the Gas Supplier have agreed that, in any instance where the Gas Supplier is remarketing the Gas under the Prepayment Agreement, the Gas Supplier is doing so as an agent of the Authority, pursuant to Treasury Regulations Section 1.141-3(d).

(c) The Prepayment Agreement and the Supply Agreement require the maintenance of records to show, with respect to each remarketing of Gas, (i) the person to whom such Gas is sold, (ii) the volume of such sale, (iii) the price of such sale, and (iv) the date of such sale. For this purposes, the Authority is relying on the City and the Gas Supplier, as applicable, in their roles in the remarketing of Gas, to provide to the Authority records of remarketings and copies of the Qualifying Use Certificates, if applicable.

2.4 Remediation. (a) While the Supply Agreement is in effect, proceeds from the sale of remarketed Gas where no Qualifying Use Certificate is obtained, such as sales to Disqualified Persons or to the Gas Supplier (the "Proceeds Subject to Remediation"), are required to be deposited in the Remediation Fund. The City may, within 22 months from the date of receipt of such amounts, allocate Proceeds Subject to Remediation to a Remediation Use. If any Proceeds Subject to Remediation remain in the Remediation Fund after 12 months, the Gas Supplier shall apply such Proceeds Subject to Remediation, including all earnings thereon, no later than 22 months from the date of receipt of such amounts, to a Remediation Use, subject to the provisions of the Prepayment Agreement.

(b) The Authority hereby covenants to maintain records to show the purchase and sale of gas or electricity and the Remediation Use related thereto, as described in this Section, and pursuant to the Prepayment Agreement and the Supply Agreement. Proceeds Subject to Remediation are allocated to expenditures on a first-in, first-out basis, as well as subject to the allocation set out in Section 4.5.2 herein. Proceeds Subject to Remediation that are not allocated to remediation uses within 22 months of the receipt of such amount shall be recorded as an "Unremediated Gas Sale."

(c) Amounts from Unremediated Gas Sales may be used to redeem Bonds in accordance with the Prepayment Agreement and the Indenture.

(d) If at any time the amount of Unremediated Gas Sales exceeds the Non-Qualifying Use Limit (as set forth in the Prepayment Agreement), and such Unremediated Gas Sales are due to a failure by the Gas Supplier to remarket Gas for a Qualifying Use in accordance with the Prepayment Agreement, the Authority is permitted to terminate the Prepayment Agreement, in whole or in part, and receive the Termination Payment (or the applicable portion thereof) thereunder. The Authority covenants that, absent an Opinion of Counsel, in the circumstances described in the preceding sentence, it will terminate the Prepayment Agreement and redeem any outstanding Bonds within 90 days.

2.5. Commodity Swap. The Authority is also entering into the Commodity Swap with the Swap Counterparty, as evidenced by an ISDA Master Agreement, a Schedule, a Credit Support Annex and a Confirmation, each dated January 24, 2007, pursuant to which the Authority will receive a fixed price and pay an index price with reference to a notional amount of gas equal to the monthly deliveries under the Prepayment Agreement. Neither the Authority's performance nor the Swap Counterparty's performance under the Commodity Swap is dependent upon the performance of any other party (other than the parties to the Commodity Swap), except that the Commodity Swap will terminate upon termination of the Prepayment Agreement.

III.

GENERAL TAX MATTERS

3.1. Useful Life. The weighted average maturity of the Bonds is 13.119 years which is not more than 120% of the weighted average economic life of the Prepayment Agreement of 10.96 years. See Exhibit C and Exhibit E attached hereto.

3.2. Registered Form. The Bonds are being issued in registered form.

3.3. No Federal Guarantee. The Authority will not, directly or indirectly, use or permit the use of or otherwise invest any proceeds of the Bonds or any other funds of the Authority or take or omit to take any action that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code. In furtherance of this representation, warranty and covenant, the Authority will not allow the payment of the principal or interest represented by the Bonds to be guaranteed (directly or indirectly) in whole or in part by the United States or any agency or instrumentality thereof. The Authority will not, except as provided in the next sentence, use 5% or more of the proceeds of the Bonds to make loans the payment of the principal or interest with respect to which are guaranteed (directly or indirectly) in whole or in part by the United States or any agency or instrumentality thereof, nor will the Authority invest 5% or more of the proceeds of the Bonds in federally insured deposits or accounts. However, proceeds of the Bonds may be invested without regard to the limitation in this Section as follows: investments qualifying for the Three-Year Temporary Period; investments in the Bona Fide Debt Service Funds; and investments in obligations issued by the United States Treasury or as otherwise provided by Section 149(b)(3) of the Code.

3.4. No Refunding. None of the proceeds of the Bonds will be used to pay principal of or interest on any other municipal obligations.

3.5. Information Reporting. The Authority has reviewed the Internal Revenue Service Form 8038-G to be filed in connection with the issuance of the Bonds, and believes that all of the information contained in the Form 8038-G is true and complete. The Authority will cause the Form 8038-G to be filed at the Internal Revenue Service Center no later than the fifteenth day of the second calendar month following the close of the calendar year quarter in which the Bonds are issued.

3.6. No Pooling. The Authority will not use the proceeds of the Bonds directly or indirectly to make or finance loans to two or more borrowers.

3.7. No Hedge Bonds. More than 85% of the Sale Proceeds will be expended for the governmental purpose of the Bonds on the Closing Date.

3.8. Reimbursement for Prior Expenditures. No Sale Proceeds of the Bonds will be used to reimburse the Authority for expenditures made before the Closing Date, other than for certain costs of issuing the Bonds.

3.9. Allocation of Proceeds to Expenditures. For purposes of this Tax Certificate, Gross Proceeds will be treated as spent when they are or were used to pay (i) the prepayment amount under the Prepayment Agreement, (ii) costs of issuing the Bonds, (iii) interest on the Bonds up to three years after the Closing Date, (iv) initial operating expenses directly associated with the Prepayment Agreement (to the extent applicable), in aggregate amount not exceeding 5% of the Sale Proceeds, or (v) other miscellaneous expenditures described in Treasury Regulations, §1.148-6(d)(3)(ii). The allocation of proceeds of the Bonds to such expenditures will be made no later than 18 months after the date on which such expenditure is originally paid by the Authority (or the City), but in no event later than the date 60 days after the fifth anniversary of the Closing Date or, if earlier, the date 60 days after the retirement of the issue.

3.10. Retention of Records. The Authority covenants to maintain all records relating to the requirements of the Code and the representations, certifications and covenants set forth in this Tax Certificate until the date three years after the last outstanding Bonds have been retired. If any of the Bonds are refunded by Tax-Exempt Obligations (the "Refunding Obligations"), the Authority covenants to maintain all records required to be retained by this Section until the later of the date three years after the last outstanding Bonds have been retired or the date three years after the last Refunding Obligations have been retired. The records that must be retained include, but are not limited to:

(a) Basic records and documents relating to the Bonds (including the Indenture, this Tax Certificate and the opinion of Bond Counsel);

(b) Documentation evidencing the expenditure of Bond proceeds;

(c) Documentation evidencing the use of the Gas by public and private persons (i.e., copies of management contracts, research agreements, leases, etc.,

Prepayment Agreement, Supply Agreement and all documents relating to the remarketing of Gas and remediation, including Qualifying Use Certificates);

(d) Documentation evidencing all payment or security for the Bonds, including the sources, and also the Commodity Swap; and

(e) Documentation pertaining to any investment of Bond proceeds (including the purchase and sale of securities, SLGs subscriptions, yield calculations for each class of investments, actual investment income received from the investment of proceeds, guaranteed investment contracts, and rebate calculations).

IV.

ARBITRAGE; FUNDS AND ACCOUNTS

4.1 Reasonable Expectations. This Article IV sets forth the reasonable expectations, statements of fact and representations of the Authority with respect to the amount and use of the proceeds of the Bonds and certain other funds.

4.2 Issue Price. The Underwriter has delivered the Certificate attached hereto as Exhibit C. Based upon that certificate, all of the Bonds have been reoffered or are reasonably expected to be reoffered by the Underwriter to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriter or wholesalers) in a bona fide public offering at the prices or yields set forth in the Official Statement for the Bonds. At least 10% of each maturity of the Bonds has been sold by the Underwriter at such prices.

4.3 Sale Proceeds. Sale Proceeds shall be allocated or used on the date hereof as follows:

Project Fund	$212,661,363.06
Underwriter's Discount	1,008,153.28
Insurance Premium	124,992.00
Cost of Issuance Fund	617,643.64
Capitalized Interest	10,391,964.17
TOTAL	$224,804,116.15

4.3.1 Project Fund. Sale Proceeds of $212,661,363.06 are being deposited into the Project Fund and will be expended on the Closing Date to make the required prepayment under the Prepayment Agreement.

4.3.2 Costs of Issuance. Sale Proceeds that are being deposited into the Costs of Issuance Fund will be used to pay costs of issuing the Bonds. In addition, $124,992.00 of Sale Proceeds will be directly paid to the Insurer for the Insurance and $1,008,153.28 of Sale Proceeds are being retained by the Underwriter as compensation. Amounts to be used to pay costs of issuing the Bonds are expected to be expended within six months of the Closing Date.

4.3.3. Capitalized Interest. Sale Proceeds of $10,391,964.17 are being deposited into the Debt Service Fund on the Closing Date to provide for the interest payments on

the Bonds through February 15, 2008, and a de minimis amount of remaining earnings (approximately $214,496) to be used for a portion of the following interest payment on the Bonds.

4.4 No Overissuance. The total proceeds to be received from the sale of the Bonds, together with other funds made available by the Authority, and anticipated investment earnings thereon, do not exceed the total of the amount necessary to finance the government purposes for which the Bonds are issued as described above.

4.5 Funds and Accounts. The following funds and accounts relating to the Bonds have been or will be established:

Project Fund
Costs of Issuance Fund
Revenue Fund
Debt Service Fund
Swap Payment Fund
Rebate Fund
Redemption Fund
Termination Fund
Operating Fund

In addition, the Remediation Fund is established pursuant to the Supply Agreement.

Investment earnings on amounts in any fund established for the Bonds will remain in such fund.

4.5.1 Revenue Fund; Debt Service Fund; Bona Fide Debt Service Funds.

The Bonds are payable solely from the Revenues derived from payments on the Supply Agreement, the Commodity Swap, proceeds from remarketed Gas sales, any Termination Payment under the Prepayment Agreement, funds held by the Trustee, and interest earnings thereon. All Revenues will be deposited into the Revenue Fund. In connection with the Bonds, amounts in the Revenue Fund will be credited each month—

(a) First, to the Debt Service Fund, in amounts necessary to meet the required balances in the Debt Service Fund;

(b) Second, to the Swap Payment Fund to pay any amount expected to be due on the Commodity Swap for that month;

(c) Third, to the Rebate Fund, to the extent necessary to maintain the required balance therein;

(d) Fourth, to the Redemption Fund, for any applicable optional redemption of the Bonds; and

(e) Fifth, to the Operating Fund, any remaining balance.

The Indenture sets forth the application of amounts in the Revenue Fund in more detail if refunding bonds are issued.

The Debt Service Fund, and the Termination Fund and the Redemption Fund (to the extent either of these funds is funded), and the portion of the Revenue Fund used to make transfers to the Debt Service Fund (collectively, the "Bona Fide Debt Service Funds") are used primarily to achieve a proper matching of revenues and debt service within each Bond Year. Such funds and accounts are depleted at least once each Bond Year except for a carryover amount not to exceed the greater of the prior Bond Year's earnings on such funds or accounts or one-twelfth of the prior Bond Year's debt service. Amounts contributed to such funds, including capitalized interest, will be spent within 13 months after the date of such contribution, and any investment earnings (net of losses) received from the investment or reinvestment of moneys held in such funds will be expended within one year after the date of accumulation thereof in such funds.

Most of the Proceeds expected to be used for capitalized interest on the Bonds, consisting of the initial deposit of $10,391,964 in Sale Proceeds, and Investment Proceeds thereon, will be used within 13 months from the Closing Date. Such amount is expected to qualify as part of the Bona Fide Debt Service Funds. All remaining Proceeds for capitalized interest, estimated to be approximately $214,496 (the "August 2008 Capitalized Interest") will be used to pay a portion of the interest due on the Bonds on August 15, 2008.

4.5.2 Accounting Allocation of Proceeds Subject to Remediation in Remediation Fund. Proceeds Subject to Remediation in the Remediation Fund may be used or deemed allocated to expenditures for tax and accounting purposes as set forth in this Section. The City may withdraw Proceeds Subject to Remediation for a Remediation Use, including by the City. Contrary to direct tracing, for remediation purchases and sales by the Gas Supplier, the Gas Supplier, acting on the Authority's behalf, may use funds other than Proceeds Subject to Remediation for a Remediation Use. The amount so used for the Remediation Use purchase is deemed to be withdrawn from the Remediation Fund, and no longer considered Proceeds Subject to Remediation, on the date of such purchase. The Authority expects the Gas Supplier to provide monthly statements or other information to reconcile such purchases using the Proceeds Subject to Remediation.

4.5.3 Project Fund; Costs of Issuance Fund. Sale Proceeds deposited in the Project Fund and the Costs of Issuance Fund on the Closing Date will be used to make the prepayment required under the Prepayment Agreement and the costs of issuing the Bonds, respectively, on or shortly after the Closing Date.

4.5.4 Swap Payment Fund. To the extent necessary, amounts will be transferred from the Revenue Fund to the Swap Payment Fund to pay the Swap Counterparty in connection with the Commodity Swap. Any excess remaining in the Swap Payment Fund after such payment will be returned to the Revenue Fund. Amounts in the Swap Payment Fund are not expected to be used to pay debt service on the Bonds.

4.5.5 Operating Fund. Revenues not necessary to fund the Debt Service Fund, Swap Payment Fund, Rebate Fund and Redemption Fund will be deposited in the Operating

Fund, to pay operating expenses and for any other lawful purpose of the Authority. Amounts in the Operating Fund are not expected to be used to pay debt service on the Bonds.

4.5.6 No Other Sinking or Pledge Fund. Other than the Bona Fide Debt Service Funds, there are no funds or accounts of the Authority (or any Related Person to the Authority) that are established pursuant to the Indenture or otherwise which are reasonably expected to be used to pay debt service with respect to the Bonds, or which are pledged as collateral for the Bonds and for which there is a reasonable assurance that amounts therein or the investment income earned from such funds or accounts will be available to pay debt service with respect to the Bonds in the event that the Authority encounters financial difficulties.

4.6 Investment Restrictions. The amounts derived from the sale of the Bonds and the amounts deposited in the funds or accounts described above shall be invested as follows:

4.6.1 Debt Service Fund; Bona Fide Debt Service Funds. Amounts deposited into the Bona Fide Debt Service Funds as set forth in this Tax Certificate may be invested at an unrestricted yield for a period not exceeding 13 months from the date of the first deposit of such amounts. Such amounts will not be subject to the arbitrage rebate requirements of Section 148(f) of the Code to the extent such amounts satisfy the requirements of Section 4.5.1 of this Tax Certificate. See Section 6.5.5 herein and the materials attached hereto as Exhibit F with connection to the Forward Delivery Agreement. For these purposes, the August 2008 Capitalized Interest in the Debt Service Fund is not part of the Bona Fide Debt Service Fund.

4.6.2. Project Fund, Costs of Issuance Fund, August 2008 Capitalized Interest. The August 2008 Capitalized Interest (as defined in Section 4.5.1 herein), and any Proceeds remaining in the Project Fund or the Costs of Issuance Fund before February 6, 2010, are eligible for the Three-Year Temporary Period. Thereafter, such amounts must be invested as set forth in Section 4.6.4 herein.

4.6.3. Remediation Fund. To the extent deposited, amounts in the Remediation Fund are not expected to remain therein more than 22 months from the date of receipt. Such amounts may be invested at a yield in excess of the yield on the Bonds, but are subject to rebate.

4.6.4. No Other Fund Expected to Hold Proceeds. Except as provided in this Section 4.6, no other fund described in the Tax Certificate is expected to hold Proceeds. In the event Sale Proceeds deposited in the Project Fund and the Costs of Issuance Fund are not expended on the Closing Date, such amounts, and Investment Proceeds thereon, are eligible for the Three-Year Temporary Period, and earnings above the yield on the Bonds are eligible for the rebate exception provided in Section 6.3.2.

4.6.4 Restricted Investments. Unless otherwise authorized by an Opinion of Counsel, any amounts which are required to be invested at a yield not in excess of the yield on the Bonds shall be invested in either (i) assets that are not treated as Investment Property, (ii) Investment Property with a yield not exceeding the yield on the Bonds, or (iii) assets that satisfy the requirements for qualified yield reduction payments set forth in Treasury Regulations, §1.148-5(c), subject to the limitation set forth in §1.148-10(b)(1)(ii).

4.7 No Replacement Proceeds. No portion of the proceeds of the Bonds will be used directly or indirectly to replace funds of the Authority, or any persons who are Related Persons to the Authority or the City, that are intended to be used for the purpose for which the Bonds are issued, and used directly or indirectly to acquire Investment Property reasonably expected to produce a yield higher than the yield on the Bonds.

4.8 No Abusive Arbitrage Device. The Bonds are not and will not be part of a transaction or series of transactions that (i) attempts to circumvent the provisions of Section 148 of the Code (or any successor thereto) and related regulations, enabling the Authority or any persons who are Related Persons to the Authority to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, and (ii) increases the burden on the market for tax-exempt obligations in any manner, including, without limitation, selling bonds that would not otherwise be sold, or selling more bonds, or issuing them sooner, or allowing them to remain outstanding longer, than would otherwise be necessary.

V.

YIELD AND YIELD RESTRICTION

5.1 Generally. For purposes of this Tax Certificate, yield is calculated as set forth in Section 148(b) of the Code and Treasury Regulations Sections 1.148-4 and 1.148-5. Thus, yield on the Bonds or yield on Investment Property generally means that discount rate which, when used in computing the present value of all unconditionally payable payments representing principal, interest and costs of qualified guarantees, produces an amount equal to the issue price of the Bonds or the purchase price of the Investment Property, as appropriate. Based on the certificate of the Underwriter in Exhibit C, the aggregate issue price of the Bonds is $224,804,116.15, which is the aggregate price at which the Bonds were offered and reasonably expected to be sold to the public. The yield on the Bonds has been calculated by the Underwriter to be 4.22149%.

5.2. Qualified Guarantee. In calculating the yield on the Bonds, the premium paid to the Insurer for the Insurance has been treated as a qualified guarantee payment, as provided in Treasury Regulations, §1.148-4(f). This is based upon (i) representations of the Insurer (set forth in the certificate attached hereto as Exhibit D) that the premium for the Insurance was negotiated at arm's length and is within the normal range of charges charged by the Insurer for the transfer of credit risk with respect to similar obligations, and that the premium paid for the Insurance does not include any direct or indirect payment for a cost, risk or other element that is not customarily borne by guarantors of obligations in transactions in which the guarantor has no involvement other than as guarantor, and (ii) representations of the Underwriter (set forth in the certificate attached hereto as Exhibit C) that the present value of interest saved as a consequence of the Insurance exceeds the present value of the premium paid for the Insurance, and that the premium paid for the Insurance is not unreasonable.

5.3 No Qualified Hedges. No contract has been, and (absent an Opinion of Counsel) no contract will be, entered into such that failure to take the contract into account would distort the yield on the Bonds or otherwise would fail clearly to reflect the economic substance of the

transaction. The Commodity Swap is not a qualified hedge entered into in connection with the Bonds.

VI.

REBATE

6.1 Undertakings. The Authority has covenanted to comply with certain requirements of the Code relating to the Rebate Requirement as discussed in this Article VI. The Authority acknowledges that the United States Department of the Treasury has issued regulations with respect to certain of these undertakings, including the proper method for computing whether any rebate amount is due the federal government under Section 148(f) of the Code. The Authority covenants that it will undertake to determine precisely what is required with respect to the rebate provisions contained in Section 148(f) of the Code and said regulations from time to time and will comply with any requirements that may be applicable to the Bonds. Except to the extent inconsistent with any requirements of the Code or the regulations or future regulations, the Authority will undertake the methodology described in this Tax Certificate.

6.2 Recordkeeping. The Authority shall maintain or cause to be maintained detailed records with respect to each Nonpurpose Investment attributable to Gross Proceeds of the Bonds, including: (a) purchase date; (b) purchase price; (c) information establishing fair market value on the date such investment became a Nonpurpose Investment; (d) any accrued interest paid; (e) face amount; (f) coupon rate; (g) periodicity of interest payments; (h) disposition price; (i) any accrued interest received; and (j) disposition date. Such detailed recordkeeping is required to facilitate the calculation of the Rebate Requirement.

6.3 Exceptions to the Rebate Requirement.

6.3.1 Bona Fide Debt Service Funds. No rebate calculations will need to be made with respect to any moneys in the Bona Fide Debt Service Funds. Only a portion of the Proceeds being used for capitalized interest on the Bonds is considered part of the Bona Fide Debt Service Fund. See Sections 4.5.1 and 4.6.1 herein.

6.3.2 Eighteen-Month Expenditure Exception. In general, no rebate calculations will be required with respect to Adjusted Gross Proceeds if at least 15% of such Adjusted Gross Proceeds actually are spent within six months after the Closing Date, at least 60% of such Adjusted Gross Proceeds actually are spent within twelve months after the Closing Date, and 100% of such Adjusted Gross Proceeds actually are spent within eighteen months after the Closing Date. For purposes of the 15% and the 60% expenditure exceptions listed in the previous sentence, the amount of Investment Proceeds that is included in Adjusted Gross Proceeds is determined based only on the expected investment earnings as of the Closing Date. Based on the Forward Delivery Agreement, the Authority expects investment earnings of $420,450 through the date all Sale Proceeds and Investment Proceeds are allocated to expenditures. In regards to this expenditure exception, any failure to satisfy the final spending requirement is disregarded if the Authority exercises due diligence to complete the project (in making the prepayment) and the amount of failure does not exceed the lesser of three percent of

the issue price of the Bonds, or $250,000. Accordingly, the Authority expects to meet this exception.

For purposes of this section, the Authority expects the City to purchase, take delivery of and use (for its own use) all the Gas delivered pursuant to the Supply Agreement, and does not expect the Remediation Fund to be funded.

6.4 Rebate Requirement Calculation and Payment.

6.4.1 The Authority will prepare or cause to be prepared a calculation of the Rebate Requirement consistent with the rules described in this Section 6.4. (The interim calculations not falling at the close of the periods referred to in Section 6.4.3 below may be made as of the close of the Bond Years involved or as of other dates more convenient to the Authority and such dates shall be treated as the close of Bond Years for purposes of this Section 6.4.) The Authority will complete the calculation of the Rebate Requirement within 55 days after the close of each fifth Bond Year and within 55 days after the first date on which there are no outstanding Bonds.

6.4.2 For purposes of calculating the Rebate Requirement (i) the aggregate amount earned with respect to a Nonpurpose Investment shall be determined by assuming that the Nonpurpose Investment was acquired for an amount equal to its fair market value (determined as provided in §1.148-5(d)(6) of the Treasury Regulations as applicable) at the time it becomes a Nonpurpose Investment, and (ii) the aggregate amount earned with respect to any Nonpurpose Investment shall include any unrealized gain or loss with respect to the Nonpurpose Investment (based on the assumed purchase price at fair market value and adjusted to take into account amounts received with respect to the Nonpurpose Investment and earned original issue discount or premium) on the first date when there are no outstanding Bonds or when the investment ceases to be a Nonpurpose Investment. Any amounts held in the Bona Fide Debt Service Fund shall be excluded from the Rebate Calculation.

6.4.3 The Authority shall pay to the United States Department of the Treasury, not later than 60 days after the end of the fifth Bond Year and each succeeding fifth Bond Year, an amount equal to 90%, and not later than 60 days after the first date when there are no outstanding Bonds, an amount equal to 100% of the Rebate Requirement (determined as of the first date when there are no outstanding Bonds) plus any actual or imputed earnings on such Rebate Requirement, all as set forth in §1.148-3 of the Treasury Regulations.

6.4.4 Each payment required to be made pursuant hereto shall be filed with the Internal Revenue Service Center, at the address listed on the instructions to Form 8038-T, on or before the date such payment is due, and shall be accompanied by Form 8038-T. The Authority shall retain records of the calculations required by this Section until three years after the retirement of the last of the Bonds.

6.5 Investments and Dispositions.

6.5.1 General Rule. No Investment Property may be acquired with Gross Proceeds for an amount (including transaction costs, except as otherwise provided in § 1.148-5(e) of the Treasury Regulations) in excess of the fair market value of such Investment Property.

No Investment Property may be sold or otherwise disposed of for an amount (including transaction costs, except as otherwise provided in §1.148-5(e) of the Treasury Regulations) less than the fair market value of the Investment Property.

6.5.2 Fair Market Value. In general, the fair market value of any Investment Property is the price a willing buyer would pay to a willing seller to acquire the Investment Property, with no amounts paid to artificially reduce or increase the yield on such Investment Property. This Section 6.5 sets forth certain safe harbors for determining fair market value. Other methods may be used to establish fair market value; provided, however, that such methods comply with the requirements of §1.148-5(d)(6) of the Treasury Regulations.

6.5.3 Arm's Length Purchase and Sale. If Investment Property is acquired pursuant to an arm's length transaction without regard to any amount paid to reduce the yield on the Investment Property, the fair market value of the Investment Property shall be the amount paid for the Investment Property (without increase for transaction costs, except as otherwise provided in §1.148-5(e) of the Treasury Regulations). If Investment Property is sold or otherwise disposed of in an arm's length transaction without regard to any reduction in the disposition price to reduce the Rebate Requirement, the fair market value of the Investment Property shall be the amount realized from the sale or other disposition of the Investment Property (without reduction for transaction costs, except as otherwise provided in §1.148-5(e) of the Treasury Regulations).

6.5.4 United States Treasury Securities – State and Local Government Series. If a United States Treasury obligation is acquired directly from or disposed of directly to the United States Department of the Treasury (as in the case of the United States Treasury Securities – State and Local Government Series ("SLGS") obligations), such acquisition or disposition shall be treated as establishing a market for the obligation and as establishing the fair market value of the obligation.

6.5.5 Investment Contracts. The purchase price of any Investment Property acquired pursuant to an investment contract (within the meaning of §1.148-5(d)(6)(iii) of the Treasury Regulations) will be considered to be fair market value if:

(a) the Authority has made (or has had made on its behalf) a bona fide solicitation for the investment contract; the solicitation must have specified the material terms of the investment contract (i.e., all the terms that could directly or indirectly affect the yield or the cost of the investment including the collateral security requirements for the investment contract) and, unless the moneys invested pursuant to such investment contract will be held in the Bona Fide Debt Service Funds, the Authority's reasonably expected drawdown schedule for the moneys to be invested; and the solicitation has a legitimate business purpose (i.e., a purpose other than to increase the purchase price or reduce the yield) for every term of the bid specification;

(b) all bidders have an equal opportunity to bid so that, for example, no bidder is given the opportunity to review other bids (a last look) before bidding;

(c) the Authority solicits bids from at least three (3) investment contract providers with established industry reputations as competitive providers of investment contracts;

(d) the Authority includes in the bid specifications a statement to potential bidders that by submitting a bid, the provider is making certain representations that the bid is bona fide, and specifically that 1) the bidder did not consult with any other potential provider about its bid, 2) the bid was determined without regard to any other formal or informal agreement that the potential provider had with the Authority or any other person, and 3) the bid was not submitted solely as a courtesy to the Authority or any other person for purposes of satisfying the requirements of §1.148-5 of the Treasury Regulations;

(e) at least three bids meeting the qualification requirements of the bid solicitation (as set forth in (i) above) have been received from different providers of investment contracts that have no material financial interest in the Bonds (the following investment contract providers are considered to have a material financial interest in the issue: 1) a lead underwriter in a negotiated underwriting, but only until 15 days after the issue date of the issue; 2) an entity acting as a financial advisor with respect to the purchase of the investment contract at the time the bid specifications were forwarded to potential providers; and 3) any related party to a provider that is disqualified for one of the two preceding reasons);

(f) at least one of the bids received by the Authority that meets the requirements of the preceding paragraph is from an investment contract provider with an established industry reputation as a competitive provider of investment contracts;

(g) the investment contract has a yield (net of any broker's fees) at least equal to the highest yielding of the qualifying bids received from the bidders that have no material financial interest in the Bonds; if the investment contract is not the highest-yielding of the qualifying bids, the Authority must have significant non-tax reasons, such as creditworthiness of the bidder, for failure to purchase the highest-yielding investment contract offered;

(h) if an agent for the Authority conducts the bidding process, the agent does not bid;

(i) the provider of the investment contract certifies as to all administrative costs to be paid on behalf of the Authority, including any fees paid as broker commissions in connection with the investment contract.

The Authority is entering into a forward delivery agreement (the "Forward Delivery Agreement") in regards to certain debt service monies on the Bonds. On the Closing Date, Sale Proceeds being allocated to pay capitalized interest on the Bonds are invested pursuant to the Forward Delivery Agreement. The bidding process in connection with the Forward Delivery

Agreement is further set forth in the certificates and other materials attached hereto as Exhibit F.

6.5.6 Deemed Acquisition or Sale. The fair market value of any Investment Property not directly purchased with Gross Proceeds but allocated to the Bonds for which there is an established securities market (within the meaning of §15A.453-1(e)(4)(iv) of the Temporary Treasury Regulations) shall be determined as provided in this Section 6.5.6 (Any market specially established to provide Investment Property to an issuer of governmental obligations shall not be treated as an established securities market.) The price at which a willing buyer would purchase Investment Property that is traded in an established securities market generally shall be determined as provided in §20.2031-2 of the Estate Tax Regulations, as adjusted by Treasury Regulations §1.148-5(d).

6.5.7 Certificates of Deposit. The purchase price of a certificate of deposit issued by a commercial bank that has a fixed interest rate, a fixed principal payment schedule, a fixed maturity, and a substantial penalty for early withdrawal will be considered to be fair market value if:

(a) the yield on the certificate of deposit is not less than the yield on reasonably comparable direct obligations of the United States; and

(b) the yield on the certificate of deposit is not less than the highest published yield of the provider thereof which is currently available on comparable certificates of deposit offered to the public.

6.5.8 Broker Compensation. For purposes of computing the Yield on any investment contract acquired through a broker, reasonable compensation received by such broker, whether payable by or on behalf of the obligor or obligee of such investment contract, may be taken into account in determining the cost of the investment contract (as provided in Section 1.148-5(e)(2)(iii) of the Treasury Regulations). For the calendar year 2007, compensation is deemed reasonable if does not exceed the lesser of i) $33,000 or ii) 0.2% of the amount reasonably expected, as of the date of acquisition of the investment contract, to be invested under the investment contract over its term, or $3,000 (if 0.2% of such amount reasonably expected to be invested under the investment contract over its term is less than $3,000). In addition, the total fees received by the broker with respect to the investment of any proceeds of the Bonds that are taken into account with respect to all investment contracts, at any time, may not exceed $93,000. All amounts referenced are to be adjusted for inflation after the Closing Date

6.6 Segregation of Proceeds. In order to perform the calculations required by the Code, it is necessary to track separately all of the Gross Proceeds. To that end, the Authority shall cause to be established separate subaccounts or shall cause the Trustee to take such other accounting measures as are necessary in order to account fully for all Gross Proceeds.

6.7 Filing Requirements. The Authority will file or cause to be filed such reports or other documents with the Internal Revenue Service as are required by the Code.

6.8 Retention of Firm. The Authority has decided to undertake its rebate obligations as follows:

_____ The Authority initially has retained the firm of Bond Logistix LLC to perform rebate calculations that may be required to be made from time to time with respect to the Bonds.

_____ The Authority initially has retained the firm of _____ to perform rebate calculations that may be required to be made from time to time with respect to the Bonds.

_____ The _____ of the Authority has undertaken full responsibility for performing rebate calculations that may be required to be made from time to time with respect to the Bonds.

_____X_____ The Authority has decided not, at this time, to designate a party responsible for performing rebate calculations that may be required to be made from time to time with respect to the Bonds and as a result undertakes and assumes full responsibility for rebate compliance and acknowledges that neither Bond Counsel nor the Trustee has any such responsibility (unless later engaged in writing for such purpose).

_____ The Authority has determined that under no circumstances will it earn any arbitrage subject to rebate with respect to the Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

VII.

OTHER MATTERS

7.1 The undersigned is an authorized representatives of the Authority and is acting for and on behalf of the Authority in executing this Tax Certificate. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change the expectations as set forth herein, and said expectations are reasonable.

7.2 Notwithstanding any provision of this Tax Certificate, the Authority may amend this Tax Certificate and thereby alter any actions allowed or required by this Tax Certificate if such amendment is based on an Opinion of Counsel.

Dated: February 6, 2007.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: M. Craig Robinson
Executive Director

EXHIBIT A

CERTIFICATE OF CITY OF ROSEVILLE, CALIFORNIA

The City of Roseville, California (the "City") has entered into the Natural Gas Supply Agreement, dated as of February 1,2007, with the Roseville Natural Gas Financing Authority (the "Authority"), in order to purchase gas (the "Gas") from the Authority. The City has been advised by the Authority that, in order to sell such Gas to the City, the Authority has purchased Gas pursuant to a prepayment arrangement, and the source of such prepayment is from proceeds of the Authority's Gas Revenue Bonds, Series 2007, being issued on the date hereof (the "Bonds"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Tax Certificate to which this certificate is attached as an exhibit. On behalf of the City, the undersigned hereby certifies and represents the following with respect to the Bonds:

The City has reviewed the Tax Certificate as it relates to the expected and permitted uses of the Gas (including the remarketing of such Gas), the investment and use of certain amounts to be held in the Remediation Fund and other matters concerning, and within the knowledge and control of, the City. In this connection, the City is not aware of any facts or circumstances that would cause it to question the accuracy or reasonableness of any representation made by Authority in the Tax Certificate. The City acknowledges that it is making representations and covenants in connection with the issuance of the Bonds by the Authority on the date hereof, on which the Authority and Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, are relying.

Dated: February 6, 2007

CITY OF ROSEVILLE, CALIFORNIA

By: W. Craig Robinson

Authorized Representative

EXHIBIT B

FORM OF CERTIFICATE OF GAS SUPPLIER

[Actual Certificate Attached]

Merrill Lynch Commodities, Inc. ("Merrill") is the gas supplier under the Agreement For Purchase And Sale Of Natural Gas between the Roseville Natural Gas Financing Authority (the "Authority") and Merrill, dated as of January 24, 2007 (the "Prepayment Agreement"). Merrill acknowledges that the prepayment amount required to be paid by the Authority pursuant to the Prepayment Agreement is being funded with the proceeds of the Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007 (the "Bonds") and that interest on the Bonds is intended to be excluded from gross income for federal income tax purposes. In connection therewith, Merrill hereby certifies as follows:

1. The price of the gas as set forth in the Prepayment Agreement is within the parameters of prices at which Merrill was generally willing to make a market and transact (and would expect buyers to be willing to transact) at the time the Prepayment Agreement was entered into, taking into account forward market prices of gas for the term of the Prepayment Agreement and using an appropriate discount rate for entering into and performing the transaction under the Prepayment Agreement.

2. Merrill shall entered into an ISDA Master Agreement and Schedule, dated [DATE], with [SWAP COUNTERPARTY] (the "Counterparty") (the "Master Agreement") and a Confirmation pursuant to the Master Agreement, dated [DATE] (the "Merrill Commodity Swap"), pursuant to which Merrill will pay a fixed price and receive an index price with reference to a notional amount of gas equal to the monthly contract quantity under the Prepayment Agreement. Neither Merrill's performance nor the Counterparty's performance under the Merrill Commodity Swap is dependent upon the performance of any other party (other than the parties to the Merrill Commodity Swap), except that the Merrill Commodity Swap will terminate upon termination of the Prepayment Agreement.

3. Merrill acknowledges that its affiliate is serving as underwriter. Notwithstanding the foregoing, amounts paid or payable to Merrill pursuant to the Prepayment Agreement do not include any payment for goods or services unrelated to Merrill's performance of its obligations under the Prepayment Agreement.

4. Merrill also certifies and represents that no payments have been or are expected to be made by Merrill to affiliates of, or related parties to, Merrill or to third parties in any such case which payments are for the benefit of the Authority or the City or Roseville, in connection with the Prepayment Agreement.

The undersigned is authorized to execute this certificate on behalf of Merrill, which is based on one or more of (i) personal knowledge, (ii) inquiry deemed adequate by the undersigned, and (iii) institutional knowledge regarding the matters set forth herein.

February 6, 2007

MERRILL LYNCH COMMODITIES, INC., Gas Supplier

By:_____

Authorized Representative

CERTIFICATE OF MERRILL LYNCH COMMODITIES, INC.

$209,350,000
ROSEVILLE NATURAL GAS FINANCING AUTHORITY

GAS REVENUE BONDS
SERIES 2007

Merrill Lynch Commodities, Inc. ("Merrill") is the gas supplier under the Agreement For Purchase And Sale Of Natural Gas between The Roseville Natural Gas Financing Authority (the "Authority") and Merrill dated as of January 24, 2007 (the "Prepayment Agreement"). Merrill acknowledges that the prepayment amount required to be paid by the Authority pursuant to the Prepayment Agreement is being funded with the proceeds of the above-referenced Bonds (the "Bonds") and that interest on the Bonds is intended to be excluded from gross income for federal income tax purposes. In connection therewith, Merrill hereby certifies as follows:

1. The price of the gas as set forth in the Prepayment Agreement is within the parameters of prices at which Merrill was generally willing to make a market and transact (and would expect buyers to be willing to transact) at the time the Prepayment Agreement was entered into, taking into account forward market prices of gas for the term of the Prepayment Agreement and using an appropriate discount rate for entering into and performing the transaction under the Prepayment Agreement.

2. Merrill entered into an ISDA Master Agreement and Schedule, dated January 24, 2007, with JPMorgan Chase Bank, National Association (the "Counterparty") (the "Master Agreement") and a Confirmation pursuant to the Master Agreement, dated January 24, 2007 (the "Merrill Commodity Swap"), pursuant to which Merrill will pay a fixed price and receive an index price with reference to a notional amount of gas equal to the monthly contract quantity under the Prepayment Agreement. Neither Merrill's performance nor the Counterparty's performance under the Merrill Commodity Swap is dependent upon the performance of any other party (other than the parties to the Merrill Commodity Swap), except that the Merrill Commodity Swap will terminate upon termination of the Prepayment Agreement.

3. Merrill acknowledges that its affiliate is serving as underwriter. Notwithstanding the foregoing, amounts paid or payable to Merrill pursuant to the Prepayment Agreement do not include any payment for goods or services unrelated to Merrill's performance of its obligations under the Prepayment Agreement.

4. Merrill also certifies and represents that no payments have been or are expected to be made by Merrill to affiliates of, or related parties to, Merrill or to third parties in any such case which payments are for the benefit of the Authority or the City or Roseville, in connection with the Prepayment Agreement.

The undersigned is authorized to execute this certificate on behalf of Merrill, which is based on one or more of (i) personal knowledge, (ii) inquiry deemed adequate by the undersigned, and (iii) institutional knowledge regarding the matters set forth herein.

January 24, 2007

MERRILL LYNCH COMMODITIES, INC.

By _____
Name: _____
Title: _____

EXHIBIT C

CERTIFICATE OF UNDERWRITER

Merrill Lynch, Pierce, Fenner & Smith Incorporated has acted as the underwriter (the "Underwriter") to the Roseville Natural Gas Financing Authority (the "Authority") with respect to $209,350,000 aggregate principal amount of the Authority's Gas Revenue Bonds, Series 2007, being issued on the date hereof (the "Bonds"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Tax Certificate to which this certificate is attached as an exhibit. On behalf of the Underwriter, the undersigned hereby certifies and represents the following with respect to the Bonds:

A. Issue Price.

1. As of the date the Bond Purchase Contract was executed (January 24, 2007) (the "Sale Date"), the Underwriter have offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriter or wholesalers) in a bona fide public offering at the prices or yields set forth in the Official Statement for the Bonds.

2. The issue prices of the Bonds represent the fair market prices of the Bonds as of the Sale Date and are reasonable under customary standards in the applicable tax-exempt market.

3. As of the date of this certificate, at least 10% of each maturity of the Bonds have actually been sold to the general public at such prices.

B. Purchasing or Holding Bonds.

Except as described herein, the Underwriter will not own any of the Bonds during the term of the Bonds. The preceding sentences does not include: (a) the initial underwriting of the Bonds; (b) purchases in connection with making a secondary market in the Bonds; or (c) the Underwriter holding Bonds as collateral for a margin loan, repurchase agreement or other form of secured lending. The Underwriter may deposit Bonds into its tender option bond program (and repurchase interests therein pursuant to tenders of such Bonds) provided that at least 10 percent of any maturity of the Bonds so used shall be sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices not greater than the initial offering prices as listed on the inside cover of the official statement, plus accrued interest.

For purposes of this paragraph, the Underwriter includes Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith incorporated, Merrill Lynch Commodities Inc., and any other person or entity constituting a related party under section 1.150-1.

C. Yield.

Using a semiannual compounding convention, the yield on the Bonds is at least 4.22149%.

D. Weighted Average Maturity.

The weighted average maturity of the Bonds is 13.119 years.

E. Insurance.

The charge for the Insurance provided with respect to the Bonds does not exceed the present value of the interest reasonably expected to be saved as a result of the Insurance. See attached. In our professional judgment, the charge for the Insurance does not exceed a reasonable charge for the transfer of credit risk.

F. Underwriter's Compensation.

Affiliates of or related parties to the Underwriter are serving as the gas remarketing agent and gas supplier in this financing. The compensation being paid to the Underwriter is only for underwriting services relating to the Bonds, and the fee charged to the Authority for such services is the same as in comparable financings (in terms of structure and credit) where no affiliate or related party to the Underwriter is a participant.

The undersigned is authorized to execute this certificate on behalf of the Underwriter, which is based on one or more of (i) personal knowledge, (ii) inquiry deemed adequate by the undersigned, and (iii) institutional knowledge regarding the matters set forth herein.

Dated: February 6, 2007

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, as Underwriter

By: Gregory E. Dawley
Authorized Representative

EXHIBIT D

CERTIFICATE OF INSURER

[Attached]

TAX CERTIFICATE OF
FINANCIAL SECURITY ASSURANCE INC.

The undersigned hereby certifies on behalf of Financial Security Assurance Inc. ("Financial Security"), in connection with the issuance by Financial Security of its Policy No. 208094-NGP (the "Policy") in respect of the contractual obligations of the City of Roseville, California (the "City"), under the Natural Gas Supply Agreement between the City and the Roseville Natural Gas Financing Authority (the "Issuer") dated as of February 1, 2007, that:

1. the insurance premium (the "Premium") is a charge for the transfer of credit risk and was determined in arm's length negotiations and is required to be paid to Financial Security as a condition to the issuance of the Policy,

2. no portion of such Premium represents an indirect payment of costs of issuance of the Issuer's Gas Revenue Bonds, Series 2007 (the "Bonds"), including rating agency fees, other than fees paid by Financial Security to maintain its ratings, which, together with all other overhead expenses of Financial Security, are taken into account in the formulation of its rate structure, or for the provision of additional services by us, nor the direct or indirect payment for a cost, risk or other element that is not customarily borne by insurers of tax-exempt bonds (in transactions in which the guarantor has no involvement other than as a guarantor), and

3. Financial Security is not providing any services in connection with the Bonds other than providing the Policy, and except for the Premium, Financial Security will not use any portion of the Bond proceeds.

Financial Security makes no representation as to the nature of the interest to be paid on the Bonds or the treatment of the Policy under Section 1.148-4(f) of the Income Tax Regulations.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

Dated: February 6, 2007

EXHIBIT E

CERTIFICATE OF FINANCIAL ADVISOR

McDonald Partners, Inc. (the "Financial Advisor") has acted as the financial advisor to the Roseville Natural Gas Financing Authority (the "Authority") with respect to $209,350,000 aggregate principal amount of the Authority's Gas Revenue Bonds, Series 2007, being issued on the date hereof (the "Bonds"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Tax Certificate to which this certificate is attached as an exhibit. On behalf of the Financial Advisor, the undersigned hereby certifies and represents the following with respect to the Bonds:

A. Yield.

Using a semiannual compounding convention, the yield on the Bonds is at least 4.22149%.

B. Average Life.

The average life of the Prepayment Agreement is 10.96 years.

C. Pricing of Prepayment Agreement.

The Financial Advisor has reviewed the certificate (the "Merrill Certificate") executed by Merrill Lynch Commodities, Inc. ("MLC"), the seller of natural gas (the "Gas") pursuant to the Agreement For Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "Prepayment Agreement"), by and between MLC and the Authority, which Merrill Certificate is attached as Exhibit B to the Tax Certificate. The Financial Advisor has reviewed the pricing of the Gas, which was the subject of the Prepayment Agreement. Based on information available to the Financial Advisor, the representations made by MLC in the Merrill Certificate regarding the pricing of the Gas are fair and accurate.

The undersigned is authorized to execute this certificate on behalf of the Financial Advisor, which is based on one or more of (i) personal knowledge, (ii) inquiry deemed adequate by the undersigned, and (iii) institutional knowledge regarding the matters set forth herein.

Dated: February 6, 2007

McDONALD PARTNERS, INC., Financial Advisor

By: Sandra McDonald

Authorized Representative

EXHIBIT F

CERTIFICATES AND OTHER MATERIALS RELATING TO FORWARD DELIVERY AGREEMENT

[Attached]

REQUEST FOR DEBT SERVICE FUND FORWARD DELIVERY AGREEMENT

Roseville Natural Gas Financing Authority
January 18, 2007

Issuer	Roseville Natural Gas Financing Authority "RNGFA". RNGFA is a joint exercise of powers agency and a public entity of the State of California established for the purpose of acquiring, financing, and managing supplies of natural gas. RNGFA was formed by the City of Roseville, CA and the City of Roseville Redevelopment Agency on December 6, 2006.
Program Name	$197,650,000* Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007
Ratings	Aa3/AA-/AA- (M/S/F) *
Trustee	The Bank of New York Trust Company, N.A.
Bond Counsel	Orrick, Herrington & Sutcliffe LLP
Dates	Bids Due: Wednesday, January 24, 2007, 2:30 p.m. E.S.T. Bids Firm Until: Bids will be firm for 15 minutes Award: Within 15 minutes of Bid Due Time Settlement: Tuesday, February 6, 2007.
Participant	Roseville Electric
Commodity Supplier	Merrill Lynch Commodities, Inc. (Aa3/AA-/AA-) (M/S/F)
Commodity Swap Provider	JP Morgan Chase Bank, N.A. (Aa2/AA-/A+) (M/S/F)
Bidding Agent	McDonald Partners, Inc. Michael McDonald 925-743-8475 Sandra McDonald 925-743-8498

Conditions	Any additional provisions to the bid must be submitted prior to the bid. Conditions must be submitted via email or fax by 3:00 p.m. EST on Tuesday, January 23, 2007 to: Sandra McDonald – sandra@mcdonaldpartners.com or (925) 743-8425 (fax) If you have submitted conditions and not received a Notice of Receipt of Conditions (via email) by 3:30 p.m. EST the same day, than you should call the Bidding Agent directly to discuss an alternative delivery.
Parties to the Agreement	RNGFA, the Trustee, and the winning Provider.
Fund/Form of Agreement	RNGFA intends to invest cash on deposit in the Debt Service Fund in a Forward Delivery Agreement ("the Agreement") meeting the conditions detailed herein. The Agreement will provide for the exchange of cash versus the delivery of Deliverable Securities, subject to the limitations set forth herein, to the Trustee on the 28th day of each month or, if such day is not a business day, the next succeeding business day, (the "Deposit Date"), from February 28th, 2008 through the Agreement Maturity Date, in an amount which will be sufficient, together with any interest paid thereon, such that the amount in the Debt Service Fund will be at least equal to the Delivered Maturity Amount as set forth in Exhibit I on each Maturity Date. "Maturity Date" shall mean the day that is the next Deposit Date or Interest Payment Date (each August 15, or February 15, or the next succeeding business day), as applicable, as set forth in Exhibit I.
Eligible Providers	Commercial Banks, Insurance Companies, Registered Broker Dealers, or other Institutions acceptable to the RNGFA meeting the Rating Requirements defined herein.
Rating Requirement	The Provider of the Agreement must hold a rating on its long-term unsecured debt obligations by two out of three of Moody's, S&P and Fitch. To the extent the Provider is rated by Moody's, S&P or Fitch, such ratings shall be at least Aa3 or better, AA- or better or AA- or better, respectively.
Basis of Award	The Agreement will be awarded to the Provider who proposes the highest rate of interest (the "Guaranteed Rate") for the term of the Agreement. Bidders must fill in the attached Bid Form for consideration.
Deposits	Funds invested pursuant to the Agreement will be deposited as stated herein and referenced in the Indenture. The estimated schedule of deposits to the Debt Service Fund (the "Scheduled Debt Service Deposits") is attached as Exhibit I. The estimated schedule is based on projected principal and interest payments and a projected investment rate. A final exhibit, which shall be attached to the Agreement, will be communicated to the winning bidder not more than one hour after the bid is awarded. Such final exhibit will reflect the actual Scheduled Debt Service Deposits that are necessary, based on the Guaranteed Rate, to produce the Delivered Maturity Amount. The Bonds are expected to be priced prior to the award of the bid.

Interest Calculation	The Guaranteed Rate shall be embedded in the maturing Delivered Security and no additional interest payments will be due from the Provider. For purposes of determining the actual Scheduled Debt Service Deposits, interest shall be calculated on a 30/360 day basis and monthly compounding to the Maturity Date. All amounts maturing on each Maturity Date which are not used to make a scheduled principal or interest payment (as identified on Exhibit I), shall be reinvested together with any Scheduled Debt Service Deposits on the next Deposit Date.
Delivered Maturity Amount	The par amount of the security, together with the amount of interest, if any, paid on such security (without regard to reinvestment) shall be deemed the "Delivered Maturity Amount", which shall be no less than the amount identified on Exhibit I (as revised after the bid is awarded).
Agreement Maturity Date	February 15, 2028, unless terminated earlier as provided herein.
Deliverable Securities	Shall mean any of the following, with an appropriate value and a final maturity that is on or before the applicable Maturity Date. Non-callable obligations which are: (i) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America; or (ii) obligations unconditionally guaranteed as to principal and interest by the United States of America; or (iii) evidences of ownership interests in such direct or unconditionally guaranteed obligations; Bonds, debentures, notes and other evidences of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies or corporations: (1) Federal Home Loan Bank System - senior debt obligations; (2) Federal Home Loan Mortgage Corporation – participation certificates and senior debt obligations; (3) Federal National Mortgage Association – mortgage-backed securities and senior debt obligations; (4) Resolution Funding Corporation; (5) Farm Credit System – consolidated system-wide bonds and notes Commercial paper rated, at the time or purchase, "P-1" by Moody's and "A-1+" by S&P.
Optional Redemption	The Bonds are subject to redemption at the option of the Issuer in whole on any date or in part (in such amounts and by such maturities as may be specified by the Issuer and by lot within a maturity) on any Interest Payment Date, at a Redemption Price equal to the greater of (a) the Amortized Value thereof, plus accrued and unpaid interest to the date of redemption; or (b) the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (described below) for such Bonds minus .25%. In the event of an Optional Refunding, or defeasance of the Bonds that reduces the initial

	Principal and Interest requirements, RNGFA, may, but shall not be obligated to, reduce the original amounts to be invested in the Agreement, and the Agreement shall continue based on the revised deposit and withdrawal schedule, subject to payment of a Termination Amount to either party based on market rates and the reduction of the invested amount in the Agreement.
Extraordinary Redemption	The Bonds are subject to mandatory redemption prior to maturity in whole, and not in part, on the Early Redemption Date, the date which is the last day of the Month which follows the Month in which the Early Termination Date is established pursuant to the Prepaid Gas Supply Contract, at a Redemption Price equal to the Amortized Value thereof, plus unpaid accrued interest to the redemption date. A termination of the Gas Supply Contract, and subsequent Extraordinary Redemption of the Bonds will result in a termination of the Agreement on the Early Redemption Date subject to payment of a Termination Amount to either party based on market conditions. If a Termination Amount is due by RNGFA, such payment shall be made only to the extent that funds are available therefore under the Indenture. The availability of such funds would require the performance of Merrill Lynch Commodities Inc., or Merrill Lynch & Co as Guarantor, under the Funding Agreement.
Mandatory Tax Redemption	The Bonds are subject to mandatory redemption prior to maturity in whole or in part, at a Redemption Price equal to the Amortized Value thereof, plus unpaid accrued interest to the redemption date, if required to maintain the tax-exempt status of the Bonds. A partial redemption of bonds due to a tax event will not relieve the City of Roseville of its obligation to perform under Prepaid Gas Supply Agreement and will therefore have no impact on the Agreement. In the event a mandatory partial redemption of the Bonds reduces the initial Principal and Interest requirements, RNGFA, may, but shall not be obligated to, reduce the original amounts to be invested in the Agreement, and the Agreement shall continue based on the revised deposit and withdrawal schedule, subject to payment of a Termination Amount to either party based on market conditions and the reduction of the invested amount in the Agreement.
Limited Information	This term sheet includes only a summary of the potential redemption scenarios detailed under the indenture. More detailed information regarding the Mandatory and Extraordinary Redemption of the Bonds can be found in the Preliminary Official Statement, the Gas Supply Agreement, and the Indenture and should be investigated fully by the Provider prior to submitting a bid.
Downgrade Events	If the Provider's (or guarantor's) debt rating is suspended, withdrawn or falls below Aa3 by Moody's or AA- by either S&P or Fitch (2 of three ratings required as in Rating Requirement), the Provider shall promptly give written notice of such Downgrade Event to RNGFA and the Trustee within five (5) business days of such Downgrade Event. The Provider shall, within ten (10) business days of giving notice of such Downgrade Event, either: 1) Assign the Agreement to another financial institution acceptable to RNGFA and the Trustee; 2) Obtain a guaranty of its obligations under the Agreement acceptable to RNGFA and the Trustee; or 3) Deliver Collateral (described below) to an independent custodian. If the Provider fails to take one of the actions specified above, it will constitute an

	immediate Provider Event of Default. If, however, the Provider's (or guarantor's) debt rating is suspended, withdrawn or falls below A1 by Moody's or A+ by either S&P or Fitch or the Provider fails to maintain at least two of three ratings required as in Rating Requirement, Roseville may terminate the Agreement (a "Downgrade Trigger").
Collateral	Collateral shall mean: 1) Cash 2) Securities issued or guaranteed by the U.S. Government or GNMA, including U.S. Treasury obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the U.S. Government; and 3) Senior bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by FNMA or FHLMC, including, but not limited to, mortgage participation certificates, mortgage passthrough certificates and other mortgage-backed securities. 4) CMOs are not permitted as collateral. A third party, selected by the Provider and acceptable to the Trustee, and with a minimum rating of Aa3 / AA-, shall serve as the custodian for the Collateral. The Provider shall grant to the custodian a perfected first security interest in any Collateral delivered under the Agreement. The custodian shall hold such Collateral free and clear of the liens and claims of third parties. The custodian shall determine the market value of the Collateral not less than weekly and shall immediately notify the Provider of any deficiency. Such deficiency shall be cured within 1 business day. Collateral shall be maintained at the following levels: 1) Cash – 100% 2) Securities issued or guaranteed by U.S. Government and GNMA at 104% of principal plus unpaid, accrued interest outstanding under the Agreement, and 3) All other securities at 105% of principal plus unpaid, accrued interest outstanding under the Agreement. The Provider will be responsible for payment of all costs associated with Collateral including fees of the custodian. Delivered Collateral must carry a minimum rating of Aa3 / AA-.

Events of Default	Provider Events of Default under the Agreement shall include the following: 1) Failure of the Provider to make a delivery of Investment Securities when due; 2) Failure of the Provider to observe any material covenant under the Agreement (five (5) business day grace period). 3) Any representation or warranty contained in the Agreement (or guaranty, if applicable) is false or misleading. 4) The Provider (or guarantor, is applicable) admits its inability to pay its debts or a petition in bankruptcy is filed. 5) If the guaranty (if applicable) is terminated, challenged or repudiated. 6) Provider's (or guarantor's) debt rating is suspended, withdrawn or falls below A1 by Moody's or A+ by either S&P or Fitch , or Provider fails to maintain at least 2 of three ratings required. An Event of Default will trigger a Termination.
Late Purchases	If sufficient funds are available and the Trustee fails to purchase Eligible Securities, the Trustee shall pay to the Provider a loss amount of the applicable Fed Funds rate on the amount not delivered for the period of time from the anticipated delivery to the date the Investment Securities are delivered. Such failure shall not be grounds for termination of the Agreement.
Termination Due to Provider Default or Downgrade Trigger	In case of a Termination due to a Provider Event of Default or a Downgrade Trigger, the Provider shall pay a Termination Amount to RNGFA if the Market Rate is lower than the Guaranteed Rate on the Agreement. A Termination Amount shall not be payable by RNGFA in the event of a Provider Event of Default or Downgrade Trigger.
Termination Amount	Termination Amount means an amount, as determined by the Provider on the basis of the arithmetic mean of quotations received from at least three Qualified Dealers, mutually agreed upon by both RNGFA and Provider, of the amount that each Qualified Dealer would require the Provider, to pay to the Qualified Dealer or the Qualified Dealer would pay to the Provider, as the case may be, in consideration of such Qualified Dealer entering into an agreement with the Provider that would have the effect of preserving for RNGFA or the Provider, as the case may be, the economic equivalent of its rights under the Agreement and terminating on February 15, 2028, assuming that the Agreement, as documented, would have remained in effect through the original Termination Date. However, if the Provider and RNGFA are unable to obtain at least two such quotations, the Provider may determine the Termination Amount in good faith and with the concurrence of RNGFA.
Qualified Dealer	Shall mean the Provider or any other Dealer in Deliverable Securities selected by the Provider meeting the criteria established herein.

Assignment	The Agreement may not be assigned or amended by any party without the prior written consent of all parties to the Agreement.
Set off	The Agreement must state that it is unconditional and must expressly disclaim any right of setoff or counter-claim.
Bidder Representation	Submission of a bid shall be deemed a representation from the bidder that (i) such bidder did not consult with any other potential provider about its bid, (ii) the bid was determined without regard to any other formal or informal agreement that the bidder may have with RNGFA or any other person (whether or not in connection with the issuance of the Bonds) and (iii) the bid is not being submitted solely as a courtesy to RNGFA or any other person for purposes of satisfying the requirements of paragraphs (1) or (2) of 26 CFR 1.148-5(d)(6)(iii)(B)(the Code). A sample Provider Certificate, which is required as a component of the bid, is attached as Schedule B
Draft Agreement	The winning Provider is expected to submit a draft copy of the Agreement to RNGFA, Bond Counsel and the Bidding Agent within two (2) business days of the award of the bid.
Approvals/Execution	The documentation related to the Agreement is subject to approval by RNGFA and the Bond Counsel. The terms and provisions of the Agreement, of any guaranty and of all opinions shall be in form and substance satisfactory to RNGFA, Trustee and Bond Counsel. In the event that the Agreement is not executed, the Provider will have no recourse against the Authority, the Trustee, the Bidding Agent, or any other member of the working group for any expenses incurred or damages sustained. The Agreement is subject to the closing and settlement of the Bonds.
Governing Law/Jurisdiction	The Agreement shall be deemed a contract made under and shall be construed in accordance with and governed by the laws of the State of New York, except the rights, power, and duties of RNGFA will be governed by the laws of the State of California. The Provider will also agree to be bound to the nonexclusive jurisdiction of any court of the State of California or the United States District Court appropriate for the purpose of any suit, action or other proceeding arising out of the Agreement, or any of the transactions contemplated hereby, at the election of the party initiating any such suit, auction or other proceeding, which is brought by or against the Provider or RNGFA.
Opinions	The Provider shall furnish to RNGFA and Bond Counsel an opinion of counsel acceptable to Bond Counsel to the effect that the Agreement constitutes a legally valid, binding, and enforceable obligation of such Provider. A similar opinion of counsel of the guarantor (if any) will also be required at closing. If the Provider or guarantor is an insurance company, such opinion shall also state that in the event of a bankruptcy of the Provider or guarantor, the Provider's or guarantor's obligation under the Agreement is on parity with the Provider's or guarantor's obligations to policyholders under applicable law. In addition, in the event of a Collateral Requirement, the collateral must be pledged to the Trustee. RNGFA and Bond Counsel must receive a legal opinion stating that in the event of the Provider's insolvency, the Trustee will be granted a perfected security interest in such Collateral.

Right to Reject Bids	RNGFA reserves the right to reject any and all bids, to waive irregularities or informalities in any bid, and to negotiate the terms of the Agreement with the Provider. The award and closing of the Agreement will be subject to Provider's delivery by the closing date of legal documentation and representations satisfactory to RNGFA and Bond Counsel. In no event shall RNGFA, the Trustee, Bond Counsel or the Bidding Agent be held liable for any expenses or losses incurred in the event of a failed settlement.
Proposal Form	Please submit bids utilizing the attached Forward Delivery Agreement Proposal Form (see Schedule A of this Term Sheet).

* Preliminary, subject to change.

Roseville Natural Gas Financing Authority
Exhibit I

Assumes Earnings at 5.20%

Deposit Date	Maturity Date	Beg Balance	Scheduled Debt Service Deposits	Delivered Maturity Amount	Debt Service Requirements	Roll-Over
					-	
02/06/2007	03/01/2007		9,843,148.33	9,878,693.03	-	9,878,693.03
03/01/2007	03/29/2007	9,878,693.03		9,918,646.86	-	9,918,646.86
03/29/2007	04/30/2007	9,918,646.86		9,963,060.36	-	9,963,060.36
04/30/2007	05/31/2007	9,963,060.36		10,006,233.62	-	10,006,233.62
05/31/2007	06/28/2007	10,006,233.62		10,046,703.28	-	10,046,703.28
06/28/2007	07/30/2007	10,046,703.28		10,093,141.38	-	10,093,141.38
07/30/2007	08/15/2007	10,093,141.38	-	10,115,009.85	(5,124,945.00)	4,990,064.85
08/15/2007	08/30/2007	4,990,064.85		5,000,876.66	-	5,000,876.66
08/30/2007	09/28/2007	5,000,876.66		5,021,102.43	-	5,021,102.43
09/28/2007	10/30/2007	5,021,102.43		5,044,311.08	-	5,044,311.08
10/30/2007	11/29/2007	5,044,311.08		5,065,441.14	-	5,065,441.14
11/29/2007	12/31/2007	5,065,441.14		5,088,854.73	-	5,088,854.73
12/31/2007	01/30/2008	5,088,854.73		5,110,906.43	-	5,110,906.43
01/30/2008	02/15/2008	5,110,906.43	-	5,121,980.06	(4,880,900.00)	241,080.06
02/15/2008	02/28/2008	241,080.06		241,532.75	-	241,532.75
02/28/2008	03/28/2008	241,532.75	1,229,188.92	1,477,094.80	-	1,477,094.80
03/28/2008	04/30/2008	1,477,094.80	961,872.00	2,450,240.25	-	2,450,240.25
04/30/2008	05/30/2008	2,450,240.25	514,104.00	2,977,189.74	-	2,977,189.74
05/30/2008	06/30/2008	2,977,189.74	497,520.00	3,489,766.82	-	3,489,766.82
06/30/2008	07/30/2008	3,489,766.82	616,924.80	4,124,487.28	-	4,124,487.28
07/30/2008	08/15/2008	4,124,487.28	895,536.00	5,030,900.00	(4,880,900.00)	150,000.00
08/15/2008	08/28/2008	150,000.00	-	150,281.67	-	150,281.67
08/28/2008	09/30/2008	150,281.67	2,457,852.84	2,620,189.89	-	2,620,189.89
09/30/2008	10/30/2008	2,620,189.89	2,467,699.20	5,109,936.61	-	5,109,936.61
10/30/2008	12/01/2008	5,109,936.61	1,990,080.00	7,131,808.91	-	7,131,808.91
12/01/2008	12/31/2008	7,131,808.91	1,233,849.60	8,401,909.70	-	8,401,909.70
12/31/2008	01/29/2009	8,401,909.70	1,592,064.00	10,035,837.35	-	10,035,837.35
01/29/2009	02/17/2009	10,035,837.35	1,131,028.80	11,195,900.00	(11,195,900.00)	-
02/17/2009	03/02/2009	-	-	-	-	-
03/02/2009	03/30/2009	-	1,233,585.40	1,238,574.57	-	1,238,574.57
03/30/2009	04/30/2009	1,238,574.57	928,704.00	2,176,670.11	-	2,176,670.11
04/30/2009	05/29/2009	2,176,670.11	514,104.00	2,702,045.46	-	2,702,045.46
05/29/2009	06/30/2009	2,702,045.46	497,520.00	3,213,892.40	-	3,213,892.40
06/30/2009	07/30/2009	3,213,892.40	616,924.80	3,847,417.41	-	3,847,417.41
07/30/2009	08/17/2009	3,847,417.41	895,536.00	4,754,600.00	(4,754,600.00)	-
08/17/2009	08/28/2009	-	-	-	-	-
08/28/2009	09/30/2009	-	2,451,845.42	2,463,178.39	-	2,463,178.39
09/30/2009	10/29/2009	2,463,178.39	2,467,699.20	4,951,532.49	-	4,951,532.49
10/29/2009	12/01/2009	4,951,532.49	1,990,080.00	6,973,698.17	-	6,973,698.17
12/01/2009	12/31/2009	6,973,698.17	1,233,849.60	8,243,113.81	-	8,243,113.81
12/31/2009	01/28/2010	8,243,113.81	1,592,064.00	9,874,955.64	-	9,874,955.64
01/28/2010	02/16/2010	9,874,955.64	1,131,028.80	11,034,600.00	(11,034,600.00)	-
02/16/2010	03/02/2010	-	-	-	-	-
03/02/2010	03/30/2010	-	1,217,324.17	1,222,247.57	-	1,222,247.57
03/30/2010	04/29/2010	1,222,247.57	928,704.00	2,159,961.67	-	2,159,961.67
04/29/2010	05/28/2010	2,159,961.67	514,104.00	2,685,267.03	-	2,685,267.03
05/28/2010	06/30/2010	2,685,267.03	497,520.00	3,197,498.58	-	3,197,498.58
06/30/2010	07/29/2010	3,197,498.58	616,924.80	3,830,401.58	-	3,830,401.58
07/29/2010	08/16/2010	3,830,401.58	895,536.00	4,737,542.38	(4,629,000.00)	108,542.38
08/16/2010	08/30/2010	108,542.38	-	108,761.88	-	108,761.88
08/30/2010	09/30/2010	108,761.88	2,467,699.20	2,587,625.74	-	2,587,625.74
09/30/2010	10/28/2010	2,587,625.74	2,467,699.20	5,075,770.92	-	5,075,770.92
10/28/2010	12/01/2010	5,075,770.92	1,990,080.00	7,099,531.48	-	7,099,531.48
12/01/2010	12/30/2010	7,099,531.48	1,233,849.60	8,368,288.69	-	8,368,288.69

Prepared by Merrill Lynch

Roseville Natural Gas Financing Authority
Exhibit I

Assumes Earnings at 5.20%

Deposit Date	Maturity Date	Beg Balance	Scheduled Debt Service Deposits	Delivered Maturity Amount	Debt Service Requirements	Roll-Over
12/30/2010	01/28/2011	8,368,288.69	1,592,064.00	10,000,636.78	-	10,000,636.78
01/28/2011	02/15/2011	10,000,636.78	1,131,028.80	11,159,000.00	(11,159,000.00)	-
02/15/2011	03/02/2011	-	-	-	-	-
03/02/2011	03/30/2011	-	1,216,582.22	1,221,502.62	-	1,221,502.62
03/30/2011	04/28/2011	1,221,502.62	928,704.00	2,158,903.01	-	2,158,903.01
04/28/2011	05/31/2011	2,158,903.01	514,104.00	2,685,748.34	-	2,685,748.34
05/31/2011	06/30/2011	2,685,748.34	497,520.00	3,197,062.50	-	3,197,062.50
06/30/2011	07/28/2011	3,197,062.50	616,924.80	3,829,412.76	-	3,829,412.76
07/28/2011	08/15/2011	3,829,412.76	895,536.00	4,736,551.13	(4,465,750.00)	270,801.13
08/15/2011	08/30/2011	270,801.13	-	271,387.87	-	271,387.87
08/30/2011	09/29/2011	271,387.87	2,467,699.20	2,750,560.80	-	2,750,560.80
09/29/2011	10/28/2011	2,750,560.80	2,467,699.20	5,240,118.71	-	5,240,118.71
10/28/2011	11/30/2011	5,240,118.71	1,990,080.00	7,263,618.30	-	7,263,618.30
11/30/2011	12/30/2011	7,263,618.30	1,233,849.60	8,534,290.26	-	8,534,290.26
12/30/2011	01/30/2012	8,534,290.26	1,592,064.00	10,170,235.13	-	10,170,235.13
01/30/2012	02/15/2012	10,170,235.13	1,131,028.80	11,325,750.00	(11,325,750.00)	-
02/15/2012	03/01/2012	-	-	-	-	-
03/01/2012	03/29/2012	-	1,218,359.35	1,223,286.94	-	1,223,286.94
03/29/2012	04/30/2012	1,223,286.94	961,872.00	2,194,943.60	-	2,194,943.60
04/30/2012	05/31/2012	2,194,943.60	514,104.00	2,720,786.81	-	2,720,786.81
05/31/2012	06/28/2012	2,720,786.81	497,520.00	3,231,323.07	-	3,231,323.07
06/28/2012	07/30/2012	3,231,323.07	616,924.80	3,866,035.33	-	3,866,035.33
07/30/2012	08/15/2012	3,866,035.33	895,536.00	4,771,888.07	(4,294,250.00)	477,638.07
08/15/2012	08/30/2012	477,638.07	-	478,672.95	-	478,672.95
08/30/2012	09/28/2012	478,672.95	2,467,699.20	2,958,288.59	-	2,958,288.59
09/28/2012	10/30/2012	2,958,288.59	2,467,699.20	5,451,067.91	-	5,451,067.91
10/30/2012	11/29/2012	5,451,067.91	1,990,080.00	7,472,318.05	-	7,472,318.05
11/29/2012	12/31/2012	7,472,318.05	1,233,849.60	8,746,409.49	-	8,746,409.49
12/31/2012	01/30/2013	8,746,409.49	1,592,064.00	10,383,273.54	-	10,383,273.54
01/30/2013	02/15/2013	10,383,273.54	1,131,028.80	11,539,250.00	(11,539,250.00)	-
02/15/2013	02/28/2013	-	-	-	-	-
02/28/2013	03/28/2013	-	1,220,890.89	1,225,828.72	-	1,225,828.72
03/28/2013	04/30/2013	1,225,828.72	928,704.00	2,164,491.45	-	2,164,491.45
04/30/2013	05/31/2013	2,164,491.45	514,104.00	2,690,202.70	-	2,690,202.70
05/31/2013	06/28/2013	2,690,202.70	497,520.00	3,200,615.27	-	3,200,615.27
06/28/2013	07/30/2013	3,200,615.27	616,924.80	3,835,185.59	-	3,835,185.59
07/30/2013	08/15/2013	3,835,185.59	895,536.00	4,740,971.49	(4,113,125.00)	627,846.49
08/15/2013	08/29/2013	627,846.49	-	629,116.14	-	629,116.14
08/29/2013	09/30/2013	629,116.14	2,467,699.20	3,110,682.19	-	3,110,682.19
09/30/2013	10/30/2013	3,110,682.19	2,467,699.20	5,602,554.38	-	5,602,554.38
10/30/2013	11/29/2013	5,602,554.38	1,990,080.00	7,624,439.08	-	7,624,439.08
11/29/2013	12/31/2013	7,624,439.08	1,233,849.60	8,899,233.66	-	8,899,233.66
12/31/2013	01/30/2014	8,899,233.66	1,592,064.00	10,536,759.95	-	10,536,759.95
01/30/2014	02/18/2014	10,536,759.95	1,131,028.80	11,698,125.00	(11,698,125.00)	-
02/18/2014	02/28/2014	-	-	-	-	-
02/28/2014	03/28/2014	-	1,218,397.92	1,223,325.66	-	1,223,325.66
03/28/2014	04/30/2014	1,223,325.66	928,704.00	2,161,976.82	-	2,161,976.82
04/30/2014	05/30/2014	2,161,976.82	514,104.00	2,687,677.17	-	2,687,677.17
05/30/2014	06/30/2014	2,687,677.17	497,520.00	3,198,999.69	-	3,198,999.69
06/30/2014	07/30/2014	3,198,999.69	616,924.80	3,832,460.16	-	3,832,460.16
07/30/2014	08/15/2014	3,832,460.16	895,536.00	4,738,240.15	(3,923,500.00)	814,740.15
08/15/2014	08/28/2014	814,740.15	-	816,270.05	-	816,270.05
08/28/2014	09/30/2014	816,270.05	2,467,699.20	3,299,148.49	-	3,299,148.49
09/30/2014	10/30/2014	3,299,148.49	2,467,699.20	5,791,837.36	-	5,791,837.36
10/30/2014	12/01/2014	5,791,837.36	1,990,080.00	7,816,763.06	-	7,816,763.06

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Roseville Natural Gas Financing Authority
Exhibit I

Assumes Earnings at 5.20%

Deposit Date	Maturity Date	Beg Balance	Scheduled Debt Service Deposits	Delivered Maturity Amount	Debt Service Requirements	Roll-Over
12/01/2014	12/31/2014	7,816,763.06	1,233,849.60	9,089,831.98	-	9,089,831.98
12/31/2014	01/29/2015	9,089,831.98	1,592,064.00	10,726,641.26	-	10,726,641.26
01/29/2015	02/17/2015	10,726,641.26	1,131,028.80	11,888,500.00	(11,888,500.00)	-
02/17/2015	03/02/2015	-	-	-	-	-
03/02/2015	03/30/2015	-	1,220,477.16	1,225,413.31	-	1,225,413.31
03/30/2015	04/30/2015	1,225,413.31	928,704.00	2,163,451.82	-	2,163,451.82
04/30/2015	05/29/2015	2,163,451.82	514,104.00	2,688,771.80	-	2,688,771.80
05/29/2015	06/30/2015	2,688,771.80	497,520.00	3,200,559.31	-	3,200,559.31
06/30/2015	07/30/2015	3,200,559.31	616,924.80	3,834,026.54	-	3,834,026.54
07/30/2015	08/17/2015	3,834,026.54	895,536.00	4,741,176.24	(3,724,375.00)	1,016,801.24
08/17/2015	08/28/2015	1,016,801.24	-	1,018,416.82	-	1,018,416.82
08/28/2015	09/30/2015	1,018,416.82	2,467,699.20	3,502,229.62	-	3,502,229.62
09/30/2015	10/29/2015	3,502,229.62	2,467,699.20	5,994,936.19	-	5,994,936.19
10/29/2015	12/01/2015	5,994,936.19	1,990,080.00	8,021,924.71	-	8,021,924.71
12/01/2015	12/31/2015	8,021,924.71	1,233,849.60	9,295,882.67	-	9,295,882.67
12/31/2015	01/28/2016	9,295,882.67	1,592,064.00	10,931,982.37	-	10,931,982.37
01/28/2016	02/16/2016	10,931,982.37	1,131,028.80	12,094,375.00	(12,094,375.00)	-
02/16/2016	03/01/2016	-	-	-	-	-
03/01/2016	03/31/2016	-	1,220,081.50	1,225,368.52	-	1,225,368.52
03/31/2016	04/28/2016	1,225,368.52	961,872.00	2,196,086.69	-	2,196,086.69
04/28/2016	05/31/2016	2,196,086.69	514,104.00	2,723,109.27	-	2,723,109.27
05/31/2016	06/30/2016	2,723,109.27	497,520.00	3,234,585.33	-	3,234,585.33
06/30/2016	07/28/2016	3,234,585.33	616,924.80	3,867,087.35	-	3,867,087.35
07/28/2016	08/15/2016	3,867,087.35	895,536.00	4,774,318.24	(3,515,125.00)	1,259,193.24
08/15/2016	08/30/2016	1,259,193.24	-	1,261,921.49	-	1,261,921.49
08/30/2016	09/29/2016	1,261,921.49	2,467,699.20	3,745,243.66	-	3,745,243.66
09/29/2016	10/28/2016	3,745,243.66	2,467,699.20	6,238,968.19	-	6,238,968.19
10/28/2016	11/30/2016	6,238,968.19	1,990,080.00	8,267,084.68	-	8,267,084.68
11/30/2016	12/30/2016	8,267,084.68	1,233,849.60	9,542,105.00	-	9,542,105.00
12/30/2016	01/30/2017	9,542,105.00	1,592,064.00	11,182,417.07	-	11,182,417.07
01/30/2017	02/15/2017	11,182,417.07	1,131,028.80	12,340,125.00	(12,340,125.00)	-
02/15/2017	03/02/2017	-	-	-	-	-
03/02/2017	03/30/2017	-	1,218,111.84	1,223,038.43	-	1,223,038.43
03/30/2017	04/28/2017	1,223,038.43	928,704.00	2,160,445.03	-	2,160,445.03
04/28/2017	05/31/2017	2,160,445.03	514,104.00	2,687,297.71	-	2,687,297.71
05/31/2017	06/29/2017	2,687,297.71	497,520.00	3,198,158.56	-	3,198,158.56
06/29/2017	07/28/2017	3,198,158.56	616,924.80	3,831,064.32	-	3,831,064.32
07/28/2017	08/15/2017	3,831,064.32	895,536.00	4,738,206.75	(3,294,500.00)	1,443,706.75
08/15/2017	08/30/2017	1,443,706.75	-	1,446,834.78	-	1,446,834.78
08/30/2017	09/28/2017	1,446,834.78	2,467,699.20	3,930,366.10	-	3,930,366.10
09/28/2017	10/30/2017	3,930,366.10	2,467,699.20	6,427,638.58	-	6,427,638.58
10/30/2017	11/30/2017	6,427,638.58	1,990,080.00	8,454,195.36	-	8,454,195.36
11/30/2017	12/29/2017	8,454,195.36	1,233,849.60	9,728,627.10	-	9,728,627.10
12/29/2017	01/30/2018	9,728,627.10	1,592,064.00	11,371,382.64	-	11,371,382.64
01/30/2018	02/15/2018	11,371,382.64	1,131,028.80	12,529,500.00	(12,529,500.00)	-
02/15/2018	03/01/2018	-	-	-	-	-
03/01/2018	03/29/2018	-	1,219,250.46	1,224,181.65	-	1,224,181.65
03/29/2018	04/30/2018	1,224,181.65	928,704.00	2,162,525.79	-	2,162,525.79
04/30/2018	05/31/2018	2,162,525.79	514,104.00	2,688,228.52	-	2,688,228.52
05/31/2018	06/28/2018	2,688,228.52	497,520.00	3,198,633.10	-	3,198,633.10
06/28/2018	07/30/2018	3,198,633.10	616,924.80	3,833,194.26	-	3,833,194.26
07/30/2018	08/15/2018	3,833,194.26	895,536.00	4,738,975.84	(3,063,625.00)	1,675,350.84
08/15/2018	08/30/2018	1,675,350.84	-	1,678,980.77	-	1,678,980.77
08/30/2018	09/28/2018	1,678,980.77	2,467,699.20	4,163,450.99	-	4,163,450.99
09/28/2018	10/30/2018	4,163,450.99	2,467,699.20	6,661,800.84	-	6,661,800.84

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Roseville Natural Gas Financing Authority
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Assumes Earnings at 5.20%

Deposit Date	Maturity Date	Beg Balance	Scheduled Debt Service Deposits	Delivered Maturity Amount	Debt Service Requirements	Roll-Over
10/30/2018	11/29/2018	6,661,800.84	1,990,080.00	8,688,122.61	-	8,688,122.61
11/29/2018	12/31/2018	8,688,122.61	1,233,849.60	9,967,833.77	-	9,967,833.77
12/31/2018	01/30/2019	9,967,833.77	1,592,064.00	11,609,990.66	-	11,609,990.66
01/30/2019	02/15/2019	11,609,990.66	1,131,028.80	12,768,625.00	(12,768,625.00)	-
02/15/2019	02/28/2019	-	-	-	-	-
02/28/2019	03/28/2019	-	1,217,105.04	1,222,027.55	-	1,222,027.55
03/28/2019	04/30/2019	1,222,027.55	928,704.00	2,160,672.71	-	2,160,672.71
04/30/2019	05/31/2019	2,160,672.71	514,104.00	2,686,367.41	-	2,686,367.41
05/31/2019	06/28/2019	2,686,367.41	497,520.00	3,196,764.47	-	3,196,764.47
06/28/2019	07/30/2019	3,196,764.47	616,924.80	3,831,316.99	-	3,831,316.99
07/30/2019	08/15/2019	3,831,316.99	895,536.00	4,737,094.50	(2,821,000.00)	1,916,094.50
08/15/2019	08/29/2019	1,916,094.50	-	1,919,969.27	-	1,919,969.27
08/29/2019	09/30/2019	1,919,969.27	2,467,699.20	4,407,315.47	-	4,407,315.47
09/30/2019	10/30/2019	4,407,315.47	2,467,699.20	6,904,806.40	-	6,904,806.40
10/30/2019	11/29/2019	6,904,806.40	1,990,080.00	8,932,146.09	-	8,932,146.09
11/29/2019	12/31/2019	8,932,146.09	1,233,849.60	10,212,985.18	-	10,212,985.18
12/31/2019	01/30/2020	10,212,985.18	1,592,064.00	11,856,204.39	-	11,856,204.39
01/30/2020	02/18/2020	11,856,204.39	1,131,028.80	13,021,000.00	(13,021,000.00)	-
02/18/2020	02/28/2020	-	-	-	-	-
02/28/2020	03/30/2020	-	1,217,949.96	1,223,579.60	-	1,223,579.60
03/30/2020	04/30/2020	1,223,579.60	961,872.00	2,194,921.89	-	2,194,921.89
04/30/2020	05/29/2020	2,194,921.89	514,104.00	2,720,373.70	-	2,720,373.70
05/29/2020	06/30/2020	2,720,373.70	497,520.00	3,232,302.71	-	3,232,302.71
06/30/2020	07/30/2020	3,232,302.71	616,924.80	3,865,907.50	-	3,865,907.50
07/30/2020	08/17/2020	3,865,907.50	895,536.00	4,773,135.49	(2,566,000.00)	2,207,135.49
08/17/2020	08/28/2020	2,207,135.49	-	2,210,642.38	-	2,210,642.38
08/28/2020	09/30/2020	2,210,642.38	2,467,699.20	4,699,965.91	-	4,699,965.91
09/30/2020	10/29/2020	4,699,965.91	2,467,699.20	7,197,689.66	-	7,197,689.66
10/29/2020	12/01/2020	7,197,689.66	1,990,080.00	9,230,237.57	-	9,230,237.57
12/01/2020	12/31/2020	9,230,237.57	1,233,849.60	10,509,431.55	-	10,509,431.55
12/31/2020	01/28/2021	10,509,431.55	1,592,064.00	12,150,439.38	-	12,150,439.38
01/28/2021	02/16/2021	12,150,439.38	1,131,028.80	13,316,000.00	(13,316,000.00)	-
02/16/2021	03/02/2021	-	-	-	-	-
03/02/2021	03/30/2021	-	1,217,844.50	1,222,770.00	-	1,222,770.00
03/30/2021	04/29/2021	1,222,770.00	928,704.00	2,160,486.29	-	2,160,486.29
04/29/2021	05/28/2021	2,160,486.29	514,104.00	2,685,793.85	-	2,685,793.85
05/28/2021	06/30/2021	2,685,793.85	497,520.00	3,198,027.83	-	3,198,027.83
06/30/2021	07/29/2021	3,198,027.83	616,924.80	3,830,933.04	-	3,830,933.04
07/29/2021	08/16/2021	3,830,933.04	895,536.00	4,738,075.15	(2,297,250.00)	2,440,825.15
08/16/2021	08/30/2021	2,440,825.15	-	2,445,761.04	-	2,445,761.04
08/30/2021	09/30/2021	2,445,761.04	2,467,699.20	4,934,751.90	-	4,934,751.90
09/30/2021	10/28/2021	4,934,751.90	2,467,699.20	7,432,389.90	-	7,432,389.90
10/28/2021	12/01/2021	7,432,389.90	1,990,080.00	9,467,383.67	-	9,467,383.67
12/01/2021	12/30/2021	9,467,383.67	1,233,849.60	10,746,059.55	-	10,746,059.55
12/30/2021	01/28/2022	10,746,059.55	1,592,064.00	12,388,024.41	-	12,388,024.41
01/28/2022	02/15/2022	12,388,024.41	1,131,028.80	13,552,250.00	(13,552,250.00)	-
02/15/2022	03/02/2022	-	-	-	-	-
03/02/2022	03/30/2022	-	1,217,388.80	1,222,312.46	-	1,222,312.46
03/30/2022	04/28/2022	1,222,312.46	928,704.00	2,159,716.13	-	2,159,716.13
04/28/2022	05/31/2022	2,159,716.13	514,104.00	2,686,565.34	-	2,686,565.34
05/31/2022	06/30/2022	2,686,565.34	497,520.00	3,197,883.04	-	3,197,883.04
06/30/2022	07/28/2022	3,197,883.04	616,924.80	3,830,236.62	-	3,830,236.62
07/28/2022	08/15/2022	3,830,236.62	895,536.00	4,737,377.02	(2,015,875.00)	2,721,502.02
08/15/2022	08/30/2022	2,721,502.02	-	2,727,398.61	-	2,727,398.61
08/30/2022	09/29/2022	2,727,398.61	2,467,699.20	5,216,859.50	-	5,216,859.50

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Roseville Natural Gas Financing Authority
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Assumes Earnings at 5.20%

Deposit Date	Maturity Date	Beg Balance	Scheduled Debt Service Deposits	Delivered Maturity Amount	Debt Service Requirements	Roll-Over
09/29/2022	10/28/2022	5,216,859.50	2,467,699.20	7,716,748.46	-	7,716,748.46
10/28/2022	11/30/2022	7,716,748.46	1,990,080.00	9,751,695.58	-	9,751,695.58
11/30/2022	12/30/2022	9,751,695.58	1,233,849.60	11,033,149.21	-	11,033,149.21
12/30/2022	01/30/2023	11,033,149.21	1,592,064.00	12,679,922.47	-	12,679,922.47
01/30/2023	02/15/2023	12,679,922.47	1,131,028.80	13,840,875.00	(13,840,875.00)	-
02/15/2023	03/02/2023	-	-	-	-	-
03/02/2023	03/30/2023	-	1,218,222.36	1,223,149.39	-	1,223,149.39
03/30/2023	04/28/2023	1,223,149.39	928,704.00	2,160,556.44	-	2,160,556.44
04/28/2023	05/31/2023	2,160,556.44	514,104.00	2,687,409.65	-	2,687,409.65
05/31/2023	06/29/2023	2,687,409.65	497,520.00	3,198,270.97	-	3,198,270.97
06/29/2023	07/28/2023	3,198,270.97	616,924.80	3,831,177.20	-	3,831,177.20
07/28/2023	08/15/2023	3,831,177.20	895,536.00	4,738,319.91	(1,720,250.00)	3,018,069.91
08/15/2023	08/30/2023	3,018,069.91	-	3,024,609.06	-	3,024,609.06
08/30/2023	09/28/2023	3,024,609.06	2,467,699.20	5,514,521.60	-	5,514,521.60
09/28/2023	10/30/2023	5,514,521.60	2,467,699.20	8,019,116.40	-	8,019,116.40
10/30/2023	11/30/2023	8,019,116.40	1,990,080.00	10,052,569.58	-	10,052,569.58
11/30/2023	12/29/2023	10,052,569.58	1,233,849.60	11,333,696.74	-	11,333,696.74
12/29/2023	01/30/2024	11,333,696.74	1,592,064.00	12,983,639.42	-	12,983,639.42
01/30/2024	02/15/2024	12,983,639.42	1,131,028.80	14,145,250.00	(14,145,250.00)	-
02/15/2024	02/29/2024	-	-	-	-	-
02/29/2024	03/28/2024	-	1,216,700.52	1,221,621.40	-	1,221,621.40
03/28/2024	04/30/2024	1,221,621.40	961,872.00	2,193,585.99	-	2,193,585.99
04/30/2024	05/31/2024	2,193,585.99	514,104.00	2,719,423.31	-	2,719,423.31
05/31/2024	06/28/2024	2,719,423.31	497,520.00	3,229,954.06	-	3,229,954.06
06/28/2024	07/30/2024	3,229,954.06	616,924.80	3,864,659.99	-	3,864,659.99
07/30/2024	08/15/2024	3,864,659.99	895,536.00	4,770,509.75	(1,409,625.00)	3,360,884.75
08/15/2024	08/29/2024	3,360,884.75	-	3,367,681.21	-	3,367,681.21
08/29/2024	09/30/2024	3,367,681.21	2,467,699.20	5,861,509.95	-	5,861,509.95
09/30/2024	10/30/2024	5,861,509.95	2,467,699.20	8,365,302.39	-	8,365,302.39
10/30/2024	11/29/2024	8,365,302.39	1,990,080.00	10,398,759.94	-	10,398,759.94
11/29/2024	12/31/2024	10,398,759.94	1,233,849.60	11,686,378.05	-	11,686,378.05
12/31/2024	01/30/2025	11,686,378.05	1,592,064.00	13,335,981.97	-	13,335,981.97
01/30/2025	02/18/2025	13,335,981.97	1,131,028.80	14,504,625.00	(14,504,625.00)	-
02/18/2025	02/28/2025	-	-	-	-	-
02/28/2025	03/28/2025	-	1,219,872.30	1,224,806.01	-	1,224,806.01
03/28/2025	04/30/2025	1,224,806.01	928,704.00	2,163,464.01	-	2,163,464.01
04/30/2025	05/30/2025	2,163,464.01	514,104.00	2,689,170.80	-	2,689,170.80
05/30/2025	06/30/2025	2,689,170.80	497,520.00	3,200,499.79	-	3,200,499.79
06/30/2025	07/30/2025	3,200,499.79	616,924.80	3,833,966.76	-	3,833,966.76
07/30/2025	08/15/2025	3,833,966.76	895,536.00	4,739,750.02	(1,082,250.00)	3,657,500.02
08/15/2025	08/28/2025	3,657,500.02	-	3,664,367.99	-	3,664,367.99
08/28/2025	09/30/2025	3,664,367.99	2,467,699.20	6,160,410.97	-	6,160,410.97
09/30/2025	10/30/2025	6,160,410.97	2,467,699.20	8,665,498.65	-	8,665,498.65
10/30/2025	12/01/2025	8,665,498.65	1,990,080.00	10,703,291.96	-	10,703,291.96
12/01/2025	12/31/2025	10,703,291.96	1,233,849.60	11,988,869.17	-	11,988,869.17
12/31/2025	01/29/2026	11,988,869.17	1,592,064.00	13,637,822.19	-	13,637,822.19
01/29/2026	02/17/2026	13,637,822.19	1,131,028.80	14,807,250.00	(14,807,250.00)	-
02/17/2026	03/02/2026	-	-	-	-	-
03/02/2026	03/30/2026	-	1,221,453.03	1,226,393.13	-	1,226,393.13
03/30/2026	04/30/2026	1,226,393.13	928,704.00	2,164,435.88	-	2,164,435.88
04/30/2026	05/29/2026	2,164,435.88	514,104.00	2,689,759.99	-	2,689,759.99
05/29/2026	06/30/2026	2,689,759.99	497,520.00	3,201,551.92	-	3,201,551.92
06/30/2026	07/30/2026	3,201,551.92	616,924.80	3,835,023.45	-	3,835,023.45
07/30/2026	08/17/2026	3,835,023.45	895,536.00	4,742,175.60	(739,125.00)	4,003,050.60
08/17/2026	08/28/2026	4,003,050.60	-	4,009,411.00	-	4,009,411.00

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Roseville Natural Gas Financing Authority
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Deposit Date	Maturity Date	Beg Balance	Scheduled Debt Service Deposits	Assumes Earnings at 5.20% Delivered Maturity Amount	Debt Service Requirements	Roll-Over
08/28/2026	09/30/2026	4,009,411.00	2,467,699.20	6,507,048.84	-	6,507,048.84
09/30/2026	10/29/2026	6,507,048.84	2,467,699.20	9,012,342.26	-	9,012,342.26
10/29/2026	12/01/2026	9,012,342.26	1,990,080.00	11,053,277.90	-	11,053,277.90
12/01/2026	12/31/2026	11,053,277.90	1,233,849.60	12,340,371.72	-	12,340,371.72
12/31/2026	01/28/2027	12,340,371.72	1,592,064.00	13,988,784.68	-	13,988,784.68
01/28/2027	02/16/2027	13,988,784.68	1,131,028.80	15,159,125.00	(15,159,125.00)	-
02/16/2027	03/02/2027	-	-	-	-	-
03/02/2027	03/31/2027	-	1,220,139.76	1,225,250.79	-	1,225,250.79
03/31/2027	04/29/2027	1,225,250.79	928,704.00	2,162,977.47	-	2,162,977.47
04/29/2027	05/28/2027	2,162,977.47	514,104.00	2,688,295.47	-	2,688,295.47
05/28/2027	06/30/2027	2,688,295.47	497,520.00	3,200,541.02	-	3,200,541.02
06/30/2027	07/29/2027	3,200,541.02	616,924.80	3,833,456.76	-	3,833,456.76
07/29/2027	08/16/2027	3,833,456.76	895,536.00	4,740,605.06	(378,625.00)	4,361,980.06
08/16/2027	08/30/2027	4,361,980.06	-	4,370,800.95	-	4,370,800.95
08/30/2027	09/30/2027	4,370,800.95	2,467,699.20	6,868,133.65	-	6,868,133.65
09/30/2027	10/28/2027	6,868,133.65	2,467,699.20	9,373,591.11	-	9,373,591.11
10/28/2027	12/01/2027	9,373,591.11	1,990,080.00	11,417,837.94	-	11,417,837.94
12/01/2027	12/30/2027	11,417,837.94	1,233,849.60	12,704,684.05	-	12,704,684.05
12/30/2027	01/28/2028	12,704,684.05	1,592,064.00	14,354,570.45	-	14,354,570.45
01/28/2028	02/15/2028	14,354,570.45	1,131,028.80	15,523,625.00	(15,523,625.00)	0
Total			321,086,406.29		(327,160,768.75)	

Prepared by Merrill Lynch

Schedule A
RNGFA
$197,650,000* Gas Revenue Bonds
Series 2007
Forward Delivery Agreement Proposal Form

**Subject to change*

Name of Provider: _____

Rating:	Moody's	Standard & Poor's	Fitch
Short Term	_____	_____	_____
Long Term	_____	_____	_____

Guaranteed Rate:
_____%

We agree to all terms contained in the Request for Investment Agreement for the above-referenced Bonds dated January 18, 2007. The above named Provider will be required to provide a market certificate stating that the bid is an arms-length bid and is market based.

Please submit bids by telephone to the attention of Michael McDonald at McDonald Partners (925) 743-8475 or Sandra McDonald at McDonald Partners (925) 743-8498 **and** submit this Schedule A by fax to McDonald Partners at 925-743-8425, or by e-mail to michael@mcdonaldpartners.com. All bids are due by 2:30 p.m. Eastern Daylight time on Wednesday, January 24, 2007.

By: _____
(Signature)

_____
(Print Name)

_____
(Title)

Date: _____
Phone Number: _____
Fax Number: _____
Address: _____
Email: _____

Schedule B
Form of

CERTIFICATE OF PROVIDER

This certification is being made by [Provider] (the "Provider") in connection with the Forward Delivery Agreement (the "Agreement") entered into by the Provider, the Bank of New York Trust Company, N.A., as Trustee and Roseville Natural Gas Financing Authority. The Provider understands that certain gross proceeds of the Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007 (the "Bonds") will be invested under the Agreement. The Provider certifies the following:

1. The Provider is a reasonably competitive provider of investment contracts and the Provider has no material financial interest in the Bonds other than as an investment provider.
2. The Provider is not paying, and does not expect to pay, any administrative costs to third parties, including any brokerage or selling commissions, legal and accounting fees other than a legal fee to custody and similar costs or expenses, in connection with supplying the Agreement.
3. The Provider did not consult with any other potential seller about its bid for the Agreement.
4. The bid was determined without regard to any other formal or informal agreement that the Provider has with Roseville Natural Gas Financing Authority or any other person (whether or not in connection with the Bonds).
5. That the bid is not less than the rate offered by the bidder on reasonably comparable investment agreements, if any, offered to purchasers from a source other than the gross proceeds of tax exempt bonds, and
6. The bid was not submitted as a courtesy to Roseville Natural Gas Financing Authority or any other person for purposes of satisfying applicable or regulatory requirements. The Provider has no opportunity to review other bids for the Agreement before providing its bid.

Date: [Date]

Signed: _____

Schedule A
RNGFA
$197,650,000* Gas Revenue Bonds
Series 2007
Forward Delivery Agreement Proposal Form

**Subject to change*

Name of Provider: Wachovia Bank, National Association

Rating:	Moody's	Standard & Poor's	Fitch
Short Term	P-1	A-1+	F1+
Long Term	Aa2	AA-	AA-

Guaranteed Rate:
5.076 %

We agree to all terms contained in the Request for Investment Agreement for the above-referenced Bonds dated January 18, 2007. The above named Provider will be required to provide a market certificate stating that the bid is an arms-length bid and is market based.

Please submit bids by telephone to the attention of Michael McDonald at McDonald Partners (925) 743-8475 or Sandra McDonald at McDonald Partners (925) 743-8498 **and** submit this Schedule A by fax to McDonald Partners at 925-743-8425, or by e-mail to michael@mcdonaldpartners.com. All bids are due by 2:30 p.m. Eastern Daylight time on Wednesday, January 24, 2007.

By: Jonathan Martin
(Signature)

Jonathan Martin
(Print Name)

Analyst
(Title)

Date: 1/24/07
Phone Number: (704) 383-5485
Fax Number: (704) 383-3616
Address: jonathan.martin@wachovia.com
Email: 301 S. College St.
Charlotte, NC 28202

Schedule A
RNGFA
$197,650,000* Gas Revenue Bonds
Series 2007
Forward Delivery Agreement Proposal Form

**Subject to change*

Name of Provider: Citigroup

Rating:	Moody's	Standard & Poor's	Fitch
Short Term	P1	A1+	F1+
Long Term	Aa1	AA-	AA+

Guaranteed Rate:
4.962 %

We agree to all terms contained in the Request for Investment Agreement for the above-referenced Bonds dated January 18, 2007. The above named Provider will be required to provide a market certificate stating that the bid is an arms-length bid and is market based.

Please submit bids by telephone to the attention of Michael McDonald at McDonald Partners (925) 743-8475 or Sandra McDonald at McDonald Partners (925) 743-8498 **and** submit this Schedule A by fax to McDonald Partners at 925-743-8425, or by e-mail to michael@mcdonaldpartners.com. All bids are due by 2:30 p.m. Eastern Daylight time on Wednesday, January 24, 2007.

By: [signature]
(Signature)

Peter Colgoff
(Print Name)

Director
(Title)

Date: 1/24/07
Phone Number: 212 723 6315
Fax Number: 212 723 8642
Address: 390 Greenwich, NY 10013
Email: peter.c.colgoff@citigroup.com

Roseville Natural Gas Financing Authority
Exhibit I

Assumes Earnings at 4.95%

Deposit Date	Maturity Date	Beg Balance	Scheduled Debt Service Deposits	Delivered Maturity Amount	Debt Service Requirements	Roll-overs
		-			-	
02/08/2007	03/01/2007		10,421,931.67	10,457,757.06	-	10,457,757.06
03/01/2007	03/29/2007	10,457,757.060		10,498,019.42	-	10,498,019.42
03/29/2007	04/30/2007	10,498,019.420		10,542,767.23	-	10,542,767.23
04/30/2007	05/31/2007	10,542,767.230		10,586,256.14	-	10,586,256.14
05/31/2007	06/28/2007	10,586,256.140		10,627,013.23	-	10,627,013.23
06/28/2007	07/30/2007	10,627,013.230		10,673,772.09	-	10,673,772.09
07/30/2007	08/15/2007	10,673,772.090	-	10,695,786.74	(5,426,295.00)	5,269,491.74
08/15/2007	08/30/2007	5,269,491.740		5,280,360.07	-	5,280,360.07
08/30/2007	09/28/2007	5,280,360.070		5,300,689.46	-	5,300,689.46
09/28/2007	10/30/2007	5,300,689.460		5,324,012.49	-	5,324,012.49
10/30/2007	11/29/2007	5,324,012.490		5,345,241.99	-	5,345,241.99
11/29/2007	12/31/2007	5,345,241.990		5,368,781.05	-	5,368,781.05
12/31/2007	01/30/2008	5,368,781.050		5,390,907.19	-	5,390,907.19
01/30/2008	02/15/2008	5,390,907.190	-	5,402,025.94	(5,167,900.00)	234,125.94
02/15/2008	02/28/2008	234,125.940		234,544.44	-	234,544.44
02/28/2008	03/28/2008	234,544.440	1,281,927.78	1,522,727.67	-	1,522,727.67
03/28/2008	04/30/2008	1,522,727.670	1,020,249.00	2,554,165.77	-	2,554,165.77
04/30/2008	05/30/2008	2,554,165.770	545,305.50	3,112,256.59	-	3,112,256.59
05/30/2008	06/30/2008	3,112,256.590	527,715.00	3,654,986.47	-	3,654,986.47
06/30/2008	07/30/2008	3,654,986.470	654,368.60	4,327,129.15	-	4,327,129.15
07/30/2008	08/15/2008	4,327,129.150	949,887.00	5,287,900.00	(5,167,900.00)	120,000.00
08/15/2008	08/28/2008	120,000.000	-	120,214.50	-	120,214.50
08/28/2008	09/30/2008	120,214.500	2,613,381.90	2,745,624.22	-	2,745,624.22
09/30/2008	10/30/2008	2,745,624.220	2,617,466.40	5,385,213.37	-	5,385,213.37
10/30/2008	12/01/2008	5,385,213.370	2,110,860.00	7,528,025.38	-	7,528,025.38
12/01/2008	12/31/2008	7,528,025.380	1,308,733.20	8,873,210.21	-	8,873,210.21
12/31/2008	01/29/2009	8,873,210.210	1,686,668.00	10,604,013.78	-	10,604,013.78
01/29/2009	02/17/2009	10,604,013.780	1,199,672.10	11,832,900.00	(11,832,900.00)	-
02/17/2009	03/02/2009	-	-	-	-	-
03/02/2009	03/30/2009	-	1,303,508.61	1,308,527.12	-	1,308,527.12
03/30/2009	04/30/2009	1,308,527.120	985,068.00	2,303,058.20	-	2,303,058.20
04/30/2009	05/29/2009	2,303,058.200	545,305.50	2,859,719.54	-	2,859,719.54
05/29/2009	06/30/2009	2,859,719.540	527,715.00	3,401,873.48	-	3,401,873.48
06/30/2009	07/30/2009	3,401,873.480	654,368.60	4,072,972.07	-	4,072,972.07
07/30/2009	08/17/2009	4,072,972.070	949,887.00	5,034,800.00	(5,034,800.00)	-
08/17/2009	08/28/2009	-	-	-	-	-
08/28/2009	09/30/2009	-	2,594,717.58	2,606,134.34	-	2,606,134.34
09/30/2009	10/29/2009	2,606,134.340	2,617,466.40	5,244,429.85	-	5,244,429.85
10/29/2009	12/01/2009	5,244,429.850	2,110,860.00	7,367,653.13	-	7,367,653.13
12/01/2009	12/31/2009	7,367,653.130	1,308,733.20	8,732,258.92	-	8,732,258.92
12/31/2009	01/28/2010	8,732,258.920	1,688,668.00	10,461,067.57	-	10,461,067.57
01/28/2010	02/16/2010	10,461,067.570	1,199,672.10	11,689,800.00	(11,689,800.00)	-
02/16/2010	03/02/2010	-	-	-	-	-
03/02/2010	03/30/2010	-	1,280,498.71	1,285,428.63	-	1,285,428.63
03/30/2010	04/29/2010	1,285,428.630	985,068.00	2,279,550.24	-	2,279,550.24
04/29/2010	05/28/2010	2,279,550.240	545,305.50	2,836,119.85	-	2,836,119.85
05/28/2010	06/30/2010	2,836,119.850	527,715.00	3,376,635.72	-	3,376,635.72
06/30/2010	07/29/2010	3,376,635.720	654,368.60	4,048,083.92	-	4,048,083.92
07/29/2010	08/16/2010	4,048,083.920	949,887.00	5,010,856.01	(4,901,500.00)	109,156.01
08/16/2010	08/30/2010	109,156.010	-	109,366.14	-	109,366.14
08/30/2010	09/30/2010	109,366.140	2,617,466.40	2,738,080.72	-	2,738,080.72
09/30/2010	10/28/2010	2,738,080.720	2,617,466.40	5,376,165.98	-	5,376,165.98
10/28/2010	12/01/2010	5,376,165.980	2,110,860.00	7,520,998.36	-	7,520,998.36
12/01/2010	12/30/2010	7,520,998.360	1,308,733.20	8,864,940.11	-	8,864,940.11
12/30/2010	01/28/2011	8,864,940.110	1,686,668.00	10,594,259.58	-	10,594,259.58
01/28/2011	02/15/2011	10,594,259.580	1,199,672.10	11,821,500.00	(11,821,500.00)	-
02/15/2011	03/02/2011	-	-	-	-	-
03/02/2011	03/30/2011	-	1,280,198.66	1,285,127.63	-	1,285,127.63
03/30/2011	04/28/2011	1,285,127.630	985,068.00	2,278,995.88	-	2,278,995.88
04/28/2011	05/31/2011	2,278,995.880	545,305.50	2,837,056.38	-	2,837,056.38
05/31/2011	06/30/2011	2,837,056.380	527,715.00	3,376,651.06	-	3,376,651.06
06/30/2011	07/28/2011	3,376,651.060	654,368.60	4,048,544.78	-	4,048,544.78
07/28/2011	08/15/2011	4,048,544.780	949,887.00	5,010,115.61	(4,728,500.00)	281,615.61

Prepared by Merrill Lynch & Co.

CERTIFICATE OF
WACHOVIA BANK, NATIONAL ASSOCIATION

I, the undersigned officer of Wachovia Bank, National Association (the "Bank") HEREBY CERTIFY in connection with the Debt Service Forward Delivery Agreement by and among The Bank of New York Trust Company, N.A., Roseville Natural Gas Financing Authority (the "Issuer") and the Bank dated as of February 1, 2007 (the "Agreement") that the yield on the Agreement is at least equal to the yield offered by the Bank on the date the Bank offered to enter into the Agreement on reasonably comparable investment contracts offered to other persons, if any, funded from a source of funds other than gross proceeds of an issue of tax-exempt bonds and that, the amount of administrative costs expected to be paid by the Bank to third parties in connection with the Agreement is $0 plus the normal and customary fees of counsel to the Bank and other fees payable to any custodian or other party as described in the Agreement. For purposes of this certification, administrative costs include all brokerage or selling commissions paid by the Bank to third parties in connection with the Agreement, legal or accounting fees, investment advisory fees, recordkeeping, safekeeping, custody and other similar costs or expenses.

I further certify that (a) neither the Bank nor any related party has a material interest in the tax-exempt bonds being issued by the Issuer in connection with the purchase of the Agreement, (b) the Bank has not been afforded the opportunity to review offers to the Issuer from other providers before making this offer to the Issuer, (c) the Bank did not consult with any other potential provider about this offer, (d) this offer was determined without regard to any other formal or informal agreement, other than the Request for Debt Service Fund Forward Delivery Agreement that the Bank has with the Issuer or any other person (whether or not in connection with the bonds being issued by the Issuer), (e) the bid was not submitted solely as a courtesy to the Issuer or to any other person for purposes of satisfying the bidding requirements of Section 1.148-5(d)(6)(iii)(B)(1) or (2) of the U.S. Treasury Regulations relating to the yield and valuation of investments in connection with tax-exempt bonds, and (f) the Bank has established an industry reputation as a reasonably competitive provider of agreements such as the Agreement.

Dated this 6th day of February, 2007.

By _____
Name Adam Howard
Title Vice President

4820-4253-5169.2
Roseville Natural Gas/WB#770 - 02/07

The Depository Trust Company

A subsidiary of The Depository Trust & Clearing Corporation

BLANKET ISSUER LETTER OF REPRESENTATIONS

[To be Completed by Issuer and Co-Issuer(s), if applicable]

Roseville Natural Gas Financing Authority
[Name of Issuer and Co-issuer(s), if applicable]

January 17, 2007
[Date]

[For Municipal Issues:
Underwriting Department—Eligibility; 25th Floor]
[For Corporate Issues:
General Counsel's Office; 22nd Floor]
The Depository Trust Company
55 Water Street
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Received and Accepted:
THE DEPOSITORY TRUST COMPANY

By: _____

Very truly yours,

Roseville Natural Gas Financing Authority
(Issuer)

By: _____
(Authorized Officer's Signature)

W. Craig Robinson, Executive Director
(Print Name)

311 Vernon Street
(Street Address)

Roseville California USA 95678-2649
(City) (State) (Country) (Zip Code)

(916) 774-5362
(Phone Number)

citymanager@roseville.ca.us
(E-mail Address)

DTCC.

The Depository Trust & Clearing Corporation

[3/05]

(To Blanket Issuer Letter of Representations)

SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities 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 Security certificate will be issued for [each issue of] the Securities, [each] 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 securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com** and **www.dtc.org**.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity

of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[**6.** Redemption notices shall be sent to DTC. If less than all of the Securities 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 any other DTC nominee) will consent or vote with respect to Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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, 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.** A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

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

11. 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 certificates will be printed and delivered to DTC.

12. 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.

DEBT SERVICE FUND FORWARD DELIVERY AGREEMENT

by and among

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as Trustee

ROSEVILLE NATURAL GAS FINANCING AUTHORITY,
as Issuer

and

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Provider

Relating to:

Roseville Natural Gas Financing Authority
Gas Revenue Bonds
Series 2007

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DEBT SERVICE FUND FORWARD DELIVERY AGREEMENT

THIS DEBT SERVICE FUND FORWARD DELIVERY AGREEMENT (this "Agreement"), dated as of February 1, 2007, by and among **THE BANK OF NEW YORK TRUST COMPANY, N.A.**, as Trustee, **ROSEVILLE NATURAL GAS FINANCING AUTHORITY** and **WACHOVIA BANK, NATIONAL ASSOCIATION**. Capitalized terms used herein and not otherwise defined shall have the meaning assigned thereto in Article I hereof.

WITNESSETH:

WHEREAS, the Trustee and the Issuer have heretofore entered into the Indenture;

WHEREAS, Section 5.06 of the Indenture requires the Trustee to transfer each month an amount equal to the Scheduled Debt Service Deposits for such month from the Revenue Fund to the Debt Service Fund;

WHEREAS, the Issuer has deemed it desirable and advantageous to provide for the investment of the amounts so deposited in the Debt Service Fund pursuant to the terms of this Agreement; and

WHEREAS, the Provider has agreed to supply investments in appropriate amounts and for appropriate periods at a price which provides a rate of return equal to the Guaranteed Rate for the right to supply such investments to the Trustee.

NOW, THEREFORE, in consideration of the foregoing, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. For purposes of this Agreement, unless clearly indicated otherwise, the words and terms defined in this Article I have the respective meanings given to them herein:

"Alternate Termination Amount" means the lesser of (a) the upfront payment amount received by the Issuer, if any, from a Replacement Provider (without any deduction for costs or expenses) and (b) the Termination Amount.

"*Amended Agreement*" has the meaning specified in Section 3.01(c)(iii).

"*Amended Cash Flows*" has the meaning specified in Section 3.01(c)(iii).

"*Bond Payment Date*" means with respect to each Delivery Date, each date identified as the "*Bond Payment Date*" on Exhibit E unless any such date is not a Business Day, in which case "*Bond Payment Date*" means the next succeeding Business Day; provided that in determining

whether any such date is a Business Day no effect shall be given to clauses (c), (d), (e), (f) or (g) of the definition of Business Day.

"*Bonds*" means the Issuer's $209,350,000 Gas Revenue Bonds Series 2007.

"*Burdened Party*" means, (a) in the case of (i) an Issuer or Trustee Event of Default or (ii) a termination of this Agreement by the Issuer pursuant to Section 3.01 following a partial or complete redemption, defeasance, purchase, tender, repurchase or refunding of the Bonds, the Provider and (b) in the case of a Provider Event of Default, the Issuer and (c) in the case of a termination pursuant to Section 10.01, the Issuer and (d) in the case of a termination pursuant to Section 10.02, the Provider.

"*Business Day*" means any day other than (a) a Saturday or Sunday, (b) a day on which the principal corporate trust office of the Trustee is authorized or required by law or executive order to close, (c) a day on which banking institutions in the State of New York or State of California are authorized or required by law or executive order to close, (d) a day on which any Qualified Securities which may be delivered hereunder are not subject to delivery in the City of New York, (e) a day on which the Provider is required by law or executive order to close, (f) a day on which the payment system of the Federal Reserve is not operational or (g) a day on which the New York Stock Exchange is closed.

"*Closing Date*" means February 6, 2007.

"*Collateral*" means securities of the type identified in Exhibit F.

"*Coupon Payment*" means, for any Qualified Security, a payment of interest which is due to be paid thereon prior to the scheduled maturity of such Qualified Security.

"*Dealer*" means a leading dealer in the relevant markets selected by the Provider in good faith from among dealers with ratings of at least "AA-" by S&P, "Aa3" by Moody's and "AA-" by Fitch and which satisfy all of the criteria that the Provider applies generally at the time in deciding whether to offer or to make an extension of credit.

"*Debt Service Fund*" means the Debt Service Fund established pursuant to Section 5.02(iv) of the Indenture.

"*Default Rate*" means a per annum rate equal to the lesser of (a) the Federal Funds Rate plus 1% per annum, and (b) the maximum rate permitted by law.

"*Delivered Maturity Amount*" means, with respect to each Bond Payment Date, the Delivered Maturity Amount specified for such date on Exhibit E.

"*Delivery Date*" means each date identified as a "Delivery Date" on Exhibit E, unless any such date is not a Business Day, in which case "*Delivery Date*" means the next succeeding Business Day.

"*Delivery Notice*" means a notice delivered by the Provider describing the Qualified Securities to be delivered pursuant hereto.

"*Deposit Amount*" means for each Delivery Date, the Deposit Amount specified for such date in Exhibit E.

"*Early Redemption Date*" shall have the meaning assigned to such term in the Indenture.

"*Eligible Securities*" means securities of the type identified in Exhibit A.

"*Federal Funds Rate*" means, for any day a fluctuating interest rate per annum equal to the weighted average (rounded to the next higher 1/100 of 1%) of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average (rounded to the next higher 1/100 of 1%) of the quotations for such day on such transactions received by the Provider from three federal funds brokers of recognized standing selected by the Provider in good faith. Each determination of the Federal Funds Rate by the Provider shall be conclusive and binding on the parties hereto absent manifest error.

"*Financing Documents*" means, collectively, the Indenture, the Funding Agreement, the Prepaid Gas Guarantee, the Funding Guarantee, the Prepaid Gas Agreement, the Supply Agreement and the Insurance Policy.

"*Fitch*" means Fitch Ratings.

"*Funding Agreement*" means the Funding and Assignment Agreement dated as of January 24, 2007 by and between the Issuer and the Seller, and any amendments or supplements thereto permitted hereunder.

"*Funding Guarantee*" means the Guarantee of the Guarantor in favor of the Issuer securing the obligations of the Seller under the Funding Agreement, and any amendments or supplements thereto permitted hereunder.

"*Guaranteed Rate*" means a rate per annum equal to 5.076%.

"*Guarantor*" means Merrill Lynch & Co., Inc., and its successors and assigns consented to by the Provider.

"*Incidental Expenses*" has the meaning specified in Section 7.07(a).

"*Indenture*" means the Trust Indenture dated as of February 1, 2007 by and between the Issuer and the Trustee, and any amendments or supplements thereto permitted hereunder.

"*Insolvent*" means (a) the Issuer, the Trustee or the Provider, as the case may be, shall (i) commence a voluntary case under the federal bankruptcy laws, (ii) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, arrangement, liquidation, winding up or the composition or the adjustment of debts, (iii) consent to any petition filed against it in an involuntary case under such bankruptcy, insolvency or other laws or such petition shall not be dismissed within 30 days of its filing, (iv) apply for or consent to the

appointment of, or the taking of possession by, a trustee, receiver, custodian, liquidator or other similar official for itself or for all or a substantial part of its property, (v) admit in writing its insolvency, bankruptcy or inability to pay, or generally its nonpayment of its debts as they come due, (vi) make an assignment, arrangement or composition with or for the benefit of its creditors, (vii) adopt a resolution or take any other action for its winding up, official management or liquidation (other than pursuant to a consolidation or merger), (viii) have a secured party take possession of all or substantially all of its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all of its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter, or (ix) take any official action for the purpose of effecting any of the foregoing; or (b) a case or other proceeding shall be commenced against the Issuer, the Trustee or the Provider, as the case may be, in any court of competent jurisdiction seeking (i) relief under the federal bankruptcy laws or under any other law relating to bankruptcy, insolvency, reorganization, winding up or the composition or the adjustment of debts, or (ii) the appointment of a trustee, receiver, custodian, liquidator, provisional liquidator, administrator or other similar official for the Issuer, the Trustee or the Provider, as the case may be, or for all or a substantial part of its property, and any such case or proceeding shall continue undismissed and unstayed for a period of 30 consecutive days, or an order granting the relief requested in any such case or proceeding against such party shall be entered and shall remain in effect and unstayed for a period of 30 consecutive days; or (c) (i) there shall be appointed or designated with respect to the Issuer an entity such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it, or (ii) there shall be declared or introduced or proposed for consideration by the Issuer or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it, or (iii) a moratorium shall be declared with regard to the payment of the Issuer's debt, or (iv) the Issuer causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (i) to (iii) (inclusive) or takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Insurance Policy" means the financial guaranty insurance policy issued by the Insurance Policy Provider in favor of the Issuer, securing the Municipality's obligations under the Supply Agreement, and any amendments and supplements thereto permitted hereunder.

"Insurance Policy Provider" means Financial Security Assurance Inc.

"*Issuer*" means Roseville Natural Gas Financing Authority, a joint exercise of powers agency and a public entity duly organized and existing under the laws of the State of California, and its successors.

"*Issuer Event of Default*" means the occurrence of an event specified in Section 7.02.

"*Loss Amount*" has the meaning specified in Section 7.07(a).

"*Market Value*" means, with respect to any Qualified Security, the market value thereof on the date of delivery (including accrued interest thereon) as specified by the Provider.

"*Maturity Amount*" means, with respect to any Qualified Security, the amount, payable in cash, representing the principal and interest (including any Coupon Payment) due thereon after its purchase by the Trustee hereunder and on or prior to its maturity date.

"*Moody's*" means Moody's Investors Service, Inc.

"*Municipality*" means the City of Roseville, California, a municipal corporation and chartered city of the State of California.

"*Operating Fund*" means the Operating Fund established pursuant to Section 5.02(ix) of the Indenture.

"*Optional Termination Amount*" means an amount, as reasonably determined in good faith by the Provider, to be the Burdened Party's total losses and costs in connection with a termination of this Agreement, including any loss of bargain, cost of funding or, without duplication, any loss or cost incurred (expressed as a positive number if the Burdened Party is the Provider and as a negative number if the Burdened Party is the Issuer) or gain realized (expressed as a negative number if the Burdened Party is the Provider or as a positive number if the Burdened Party is the Issuer) as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position.

"*Original Cash Flows*" has the meaning specified in Section 3.01(c)(iv).

"*Permitted Investments*" shall have the meaning assigned to the term Qualified Investments in the Indenture.

"*Prepaid Gas Agreement*" means the Agreement for the Purchase and Sale of Natural Gas dated as of January 24, 2007 by and between the Issuer and the Seller, and any amendments or supplements thereto permitted hereunder.

"*Prepaid Gas Guarantee*" means the Guarantee of the Guarantor in favor of the Issuer, securing the obligations of the Seller under the Prepaid Gas Agreement, and any amendments or supplements thereto permitted hereunder.

"*Previously Purchased Securities*" has the meaning specified in Section 2.03(a).

"*Provider*" means Wachovia Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, and its successors and assigns.

"*Provider Cure Period*" has the meaning specified in Section 7.03(a).

"*Provider Event of Default*" means the occurrence of an event specified in Section 7.03.

"*Purchase Price*" means, (a) except as provided in Subsection (b) hereof, for any Qualified Security delivered hereunder, that price for such Qualified Security, as set forth in the Delivery Notice, which will produce a rate of return on such Qualified Security for the period from (and including) its Delivery Date to (but excluding) the related Bond Payment Date equal to the Guaranteed Rate, calculated on the basis of a year of 360 days with twelve 30-day months; provided, however, that if the Provider is unable to deliver such Qualified Security because the Trustee has failed to purchase such Qualified Security in accordance with the terms of this Agreement, then the term "Delivery Date" for purposes of this definition shall mean the date that the Trustee purchases such Qualified Security in accordance with the terms of this Agreement and (b) for any Qualified Security delivered pursuant to Section 2.03(b) or 2.03(c) hereof, the Maturity Amount.

"*Purchased Securities*" means any Qualified Securities delivered to the Trustee hereunder.

"*Qualified Dealer*" means Wachovia Capital Markets, LLC, a corporation duly organized and validly existing under the laws of the State of North Carolina, its successors or assigns, or any other dealer in Eligible Securities selected by the Provider.

"*Qualified Provider*" shall have the meaning assigned thereto in the Indenture.

"*Qualified Securities*" means, in connection with any Delivery Date, one or more Eligible Securities which shall (a) mature not later than the related Bond Payment Date and (b) have in the aggregate a Purchase Price which is as close as possible to but does not exceed the Deposit Amount.

"*Refunding Bonds*" has the meaning specified in Section 3.01(c).

"*Refunding Date*" has the meaning specified in Section 3.01(c)(iii).

"*Replacement Provider*" has the meaning specified in Section 7.06.

"*Revenue Fund*" means the Revenue Fund established pursuant to Section 5.02(iii) of the Indenture.

"*Revenues*" shall have the meaning assigned thereto in the Indenture.

"*S&P*" means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc.

"*Scheduled Debt Service Deposits*" shall have the meaning assigned thereto in the Indenture.

"*Seller*" means Merrill Lynch Commodities, Inc., and its successors.

"*Shortfall Amount*" has the meaning specified in Section 7.07(a).

"*Specified Indebtedness*" means any bond, note or other evidence of indebtedness, including without limitation the Bonds, or any guarantee.

"*Supply Agreement*" means the Natural Gas Supply Agreement dated as of February 1, 2007 by and between the Issuer and the Municipality, and any amendments or supplements thereto permitted hereunder.

"*Termination Amount*" means an amount, as determined by the Provider in good faith on the basis of the arithmetic mean of quotations from at least three Dealers of the amount, if any, that each such Dealer would require the Burdened Party to pay to the Dealer (expressed as a positive number if the Burdened Party is the Provider and a negative number if the Burdened Party is the Issuer) or would pay to the Burdened Party (expressed as a negative number if the Burdened Party is the Provider and a positive number if the Burdened Party is the Issuer) in consideration of such Dealer entering into an agreement with the Burdened Party (with such documentation as the Provider and the Dealer may in good faith agree and taking into account any guaranties or credit enhancement applicable to the obligations of any party hereunder) which would have the effect of preserving for the Burdened Party the economic equivalent of its rights under this Agreement for the period commencing on the termination date of this Agreement and terminating on the last Bond Payment Date (assuming for these purposes that this Agreement had not terminated on the termination date and continued in full force through such last Bond Payment Date); provided, however, that:

(a) if more than three quotations are provided, the Termination Amount will be the arithmetic mean of such quotations, without regard to the quotations having the highest and lowest values;

(b) if exactly three quotations are provided, the Termination Amount will be the quotation remaining after disregarding the highest and lowest quotations;

(c) for purposes of clauses (a) and (b), if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded;

(d) if the Provider is unable to obtain three such quotations, the Termination Amount shall be the amount, as reasonably determined by the Provider (with the concurrence of the Issuer), to be the Burdened Party's total losses and costs (expressed as a positive number if the Burdened Party is the Provider and a negative number if the Burdened Party is the Issuer), or gains (expressed as a negative number if the Burdened Party is the Provider and a positive number if the Burdened Party is the Issuer) in connection with a termination of this Agreement; and

provided further, however, that in any event the Termination Amount shall also include any unpaid amounts due as of the date of termination of this Agreement (including any amounts due under Section 7.07). Any determination of the Termination Amount by the Provider shall be conclusive and binding on the parties hereto absent manifest error.

"*Termination Fund*" means the Termination Fund established pursuant to Section 5.02(viii) of the Indenture.

"*Trustee*" means The Bank of New York Trust Company, N.A., a national banking association duly organized under the laws of the United States of America, and its successors.

"*Trustee Event of Default*" means the occurrence of an event specified in Section 7.01.

Section 1.02. Incorporation of Certain Definitions by Reference. Each capitalized term used herein and not otherwise defined herein shall have the meaning provided therefor in the Indenture and the Bonds, as applicable, unless the context otherwise requires.

Section 1.03. Accounting Matters. All accounting terms used herein without definition shall be interpreted in accordance with generally accepted accounting principles, consistently applied, and, except as otherwise expressly provided herein, all accounting determinations required to be made pursuant to this Agreement shall be made in accordance with generally accepted accounting principles, consistently applied.

Section 1.04. Interpretation. All words used herein shall be construed to be of such gender or number as the circumstances require. Reference to any document means such document as amended or supplemented from time to time as permitted under its respective terms and the terms hereof. Reference herein to an Article, Exhibit or Section shall constitute a reference to such Article, Exhibit or Section of or to this Agreement unless otherwise specified.

Section 1.05. Computation of Time Periods. In this Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise specified herein, the word "*from*" means "from and including" and the words "*to*" and "*until*" each mean "to but excluding."

Section 1.06. New York City Time Presumption. All references herein to times of the day shall be presumed to refer to New York City time unless otherwise specified.

ARTICLE II

PURCHASE AGREEMENT

Section 2.01. Purchase and Sale of Qualified Securities.

(a) To the extent Qualified Securities are available on the open market, the Provider or other Qualified Dealer shall deliver to the Trustee, on each Delivery Date, Qualified Securities selected by the Provider; provided that except in connection with any deliveries made pursuant to Section 2.03, the Purchase Price of Qualified Securities delivered on any date shall not exceed the difference between the Deposit Amount and the Purchase Price of Qualified Securities previously delivered by the Provider with respect to the applicable Delivery Date and which have not yet matured.

(b) At the time of the delivery by the Provider or other Qualified Dealer of any Qualified Securities in accordance with this Agreement, whether on or after a Delivery Date, the Trustee shall, out of funds available in the Debt Service Fund under the Indenture purchase such Qualified Securities in accordance with Section 2.02.

(c) If the Provider or other Qualified Dealer fails to deliver Qualified Securities as required hereunder by 3:00 p.m. New York City time on any Delivery Date or on any other day during the Provider Cure Period, the Issuer hereby instructs the Trustee, and the Trustee shall, on each such date, invest the Purchase Price on an overnight basis in Permitted Investments and if the Provider's failure continues beyond the Provider Cure Period, the Issuer hereby instructs the Trustee, and the Trustee shall use its best efforts to invest the Purchase Price in Permitted Investments permitted by the Indenture for investment of moneys in the Debt Service Fund with the highest available yield, provided that the maturities of such Permitted Investments are not later than the related Bond Payment Date.

(d) The Provider is not required to own any Qualified Securities at the time of the Provider's execution of this Agreement or at any time prior to the respective delivery dates thereof. The Provider's failure to deliver Qualified Securities at any time shall not terminate or affect the Provider's right to deliver Qualified Securities at any other time prior to the termination of this Agreement.

(e) So long as the Trustee purchases Qualified Securities strictly in accordance with the terms hereof, with respect to each Delivery Date, the Provider shall deliver Qualified Securities so that the Trustee receives the Delivered Maturity Amount on or before the next succeeding Bond Payment Date.

Section 2.02. Delivery; Payment.

(a) All Qualified Securities delivered under this Agreement shall be delivered to the Trustee to the account specified in Section 9.01, in such manner as at the time is generally acceptable for delivery of Qualified Securities. All Qualified Securities delivered under this Agreement shall be delivered to the Trustee on a "delivery versus payment" basis.

(b) Except with respect to the initial delivery of Qualified Securities, with respect to which no Delivery Notice is required, the Provider or other Qualified Dealer shall cause a Delivery Notice to be delivered to the Trustee at least one Business Day prior to the delivery of any Qualified Securities that are in book entry form and at least two Business Days prior to the delivery of any Qualified Securities that are in certificated form.

(c) Concurrently with the delivery of Qualified Securities by the Provider, the Trustee shall pay the Purchase Price to the Provider. Concurrently with the delivery of Qualified Securities by a Qualified Dealer, the Trustee shall pay the Purchase Price to the Qualified Dealer delivering such Qualified Securities.

(d) All payments required to be made by the Trustee under this Agreement for purchases of Qualified Securities shall be made in immediately available funds by means of a bank or federal funds wire to the account set forth in the Delivery Notice.

ection 2.03. Substitution; Subsequent Deliveries.

(a) Subject to Section 2.02(b), the Provider or a Qualified Dealer may, at the ption of the Provider, deliver to the Trustee, from time to time, on any Business Day after a Delivery Date and prior to the related Bond Payment Date, Qualified Securities with an aggregate Maturity Amount which does not exceed the aggregate Maturity Amount of Qualified Securities previously delivered to the Trustee pursuant to this Agreement and which have not yet matured (collectively, the "Previously Purchased Securities"). If the Provider or a Qualified Dealer delivers Qualified Securities to the Trustee as provided in this Section 2.03(a), the Trustee shall purchase such securities and concurrently with and in consideration of such purchase, and in lieu of paying the Purchase Price, deliver to the Provider or a Qualified Dealer, as applicable, all or a portion of the Previously Purchased Securities which have a Maturity Amount equal to the Maturity Amount of the Qualified Securities then being delivered to the Trustee all as may be directed by the Provider. Any Qualified Securities delivered by the Provider or a Qualified Dealer pursuant to this Section 2.03(a) must mature on a date that is not later than the related Bond Payment Date.

(b) If any Previously Purchased Securities mature prior to the Bond Payment Date for which such Previously Purchased Securities were delivered, the Provider shall have the right, at any time on or after the maturity date of such Previously Purchased Securities, subject to Section 2.02(b) hereof, to cause the Trustee to purchase at the Purchase Price from the Provider or other Qualified Dealer, with all or part of the proceeds of any such Previously Purchased Securities, Qualified Securities the Purchase Price of which is equal to or less than the Maturity Amount of the Qualified Securities which have so matured.

(c) If any Previously Purchased Securities have a Coupon Payment, the Provider shall have the right, at any time on or after the date on which interest in respect of such Coupon Payment is received by the Trustee, subject to Section 2.02(b) hereof, to cause the Trustee to purchase at the Purchase Price from the Provider or other Qualified Dealer, with all or part of the amount of such Coupon Payment, Qualified Securities the Purchase Price of which is equal to or less than the amount of such Coupon Payment.

ARTICLE III

DEFEASANCE OR REFUNDING

Section 3.01. Defeasance or Refunding.

(a) The Issuer shall give the Provider at least 15 Business Days' prior written notice of any partial or complete redemption, purchase, tender for, defeasance, repurchase or refunding of the Bonds. In the event all of the Bonds are redeemed, purchased, tendered for, defeased, repurchased or redeemed, (i) if the Termination Amount is a positive number, the Issuer shall pay or cause the Trustee to pay the Termination Amount to the Provider and (ii) if the Termination Amount is a negative number, the Provider shall pay the Termination Amount to the Trustee. If the

Termination Amount is payable pursuant to this Section 3.01(a), the party owing such amount shall pay such amount promptly but by no later than the later of (A) one Business Day after receipt of notice of the Termination Amount from the Provider, or (B) the date of such purchase, redemption, defeasance, repurchase, refunding or similar event. Such payment shall be made in immediately available funds, to or at the direction of the party to whom such Termination Amount is due. Immediately upon payment of the Termination Amount in accordance with this Section 3.01(a) this Agreement shall terminate. The Issuer agrees that, except where required to do so by the Indenture, it shall not direct the Trustee to partially or completely redeem, purchase, tender for, defease, repurchase or refund the Bonds unless it shall have sufficient funds to pay any Termination Amount or other amounts which may be due as provided in this Section 3.01.

(b) In the event that some but not all of the Bonds are redeemed, purchased, tendered for, defeased, repurchased or refunded, and as a result thereof the Scheduled Debt Service Deposits (as defined in the Indenture) have been reduced, the Issuer may, by written notice to the Provider, request that the Provider modify the Deposit Amounts and the Delivered Maturity Amounts set forth in Exhibit E. The Provider agrees that if it receives such a request, the Provider shall so modify the Deposit Amounts and the Delivered Maturity Amounts set forth in Exhibit E, provided that:

(i) the Provider receives such request (together with all relevant details relating thereto) at least 30 days in advance of the effective date of such changes;

(ii) if as determined on the effective date of such changes, the Termination Amount payable to the Provider of its investment rights with respect to the Deposit Amounts and the Delivered Maturity Amounts which would be remaining hereunder on such date, assuming that the Bonds were not then partially redeemed, purchased, tendered for, defeased, repurchased or refunded would be greater than the Termination Amount to the Provider of its investment rights with respect the Deposit Amounts and the Delivered Maturity Amounts as so revised, the Issuer shall on or before the effective date of such changes pay to the Provider the amount of such difference;

(iii) all Delivery Dates and Bond Payment Dates set forth in Exhibit E remain the same; and

(iv) at the time such request is received and on the effective date of such changes no Issuer Event of Default or Trustee Event of Default has occurred and is continuing or would, with notice or the passage of time, result in such a default.

If no amount is payable to the Provider pursuant to Section 3.01(b)(ii), and the Termination Amount payable to the Issuer of its investment rights with respect to the Deposit Amounts and the Delivered Maturity Amounts which would be remaining hereunder on such date, assuming that the Bonds were not then partially redeemed,

purchased, tendered for, defeased, repurchased or refunded would be greater than the Termination Amount to the Issuer of its investment rights with respect to the Deposit Amounts and the Delivered Maturity Amounts as so revised, the Provider shall on or before the effective date of such changes pay to the Issuer the amount of such difference.

(c) If pursuant to Subsection 3.01(a) this Agreement would be terminated in connection with the issuance of bonds to refund the Bonds (the "Refunding Bonds") and a Termination Amount would be payable to the Provider, the Issuer may, by written notice to the Provider, request that the Provider continue this Agreement and have such Agreement apply to the Refunding Bonds. The Provider agrees that if it receives such a request, the Agreement shall not terminate and the Provider shall so continue this Agreement with respect to the Refunding Bonds and the Bonds remaining outstanding after such refunding, provided that:

(i) the Provider receives such request (together with all relevant details relating thereto) at least 30 days in advance of the issuance of the Refunding Bonds;

(ii) the Refunding Bonds are to be issued under the existing Indenture or such other indenture which is approved by the Provider and the Provider is otherwise satisfied with the bond documentation relating to the Refunding Bonds;

(iii) on or prior to the date the Bonds are to be refunded (the "Refunding Date"), the Issuer and the trustee of the Refunding Bonds enter into such amendments of this Agreement with the Provider (the "Amended Agreement") as are necessary to have this Agreement pertain to the deposit amounts, delivery dates and bond payment dates applicable to the Refunding Bonds and to any Bonds which remain outstanding after giving effect to such refunding (the "Amended Cash Flows");

(iv) if as determined on the Refunding Date, the Termination Amount payable to the Provider of its investment rights with respect to the Deposit Amounts, Delivery Dates and Bond Payment Dates which would be remaining hereunder on such date, assuming that the Bonds were not then refunded (the "Original Cash Flows") would be greater than the Termination Amount to the Provider of its investment rights with respect to the Amended Cash Flows, the Issuer shall on or before the Refunding Date pay to the Provider the amount of such difference;

(v) the last delivery date under the Amended Agreement is no later than the last Delivery Date hereunder;

(vi) the Refunding Bonds have a credit rating at least equivalent to the credit rating of the Bonds as of the Closing Date without giving effect to any bond insurance or other credit enhancement other than the Funding Guarantee, the Prepaid Gas Guarantee and the Insurance Policy;

(vii) at the time such request is received and on the Refunding Date no Issuer Event of Default or Trustee Event of Default has occurred and is continuing or would, with notice or the passage of time, result in such a default;

(viii) the Issuer pays the Provider's reasonable legal and administrative fees incurred in connection with the Amended Agreement, which amounts shall not exceed $2,500; and

(ix) the Provider receives any opinions and other assurances it may reasonably request to assure that the protections afforded it hereunder will continue under the Amended Agreement.

(d) If the conditions described in paragraphs (c)(i) through (c)(ix) are satisfied but the Termination Amount to the Provider of its investment rights with respect to the Amended Cash Flows would be greater than the Termination Amount to the Provider of its investment rights with respect to the Original Cash Flows, the Provider shall, on or before the Refunding Date, pay the Issuer the amount of such difference.

(e) If the conditions described in paragraphs (c)(i) through (c)(ix) are not satisfied, Termination Amount shall be calculated and paid as provided in Section 3.01(a).

(f) Notwithstanding any other provisions of this Section 3.01, this Section 3.01(f) shall govern in the event of a mandatory redemption of the Bonds as described in Section 4.01(a) the Indenture. The Trustee shall provide notice to the Provider at least fifteen days prior to the Early Redemption Date. On the date that is five Business Days prior to the Early Redemption Date, the Provider shall calculate the Termination Amount and (i) if the Termination Amount is a positive number, the Issuer shall pay or cause the Trustee to pay the Termination Amount to the Provider and (ii) if the Termination Amount is a negative number, the Provider shall pay the Termination Amount to the Trustee. If the Termination Amount is payable pursuant to this Section 3.01(f), the party owing such amount shall pay such amount on the Early Redemption Date. Such payment shall be made in immediately available funds, to or at the direction of the party to whom such Termination Amount is due. Any Termination Amount payable by the Issuer pursuant to this Section 3.01(f) shall be paid solely from amounts in the Termination Fund.

(g) Notwithstanding anything herein to the contrary, the Scheduled Debt Service Deposits (as defined in the Indenture) shall not be reduced pursuant to Section 5.06(f) of the Indenture without the prior written consent of the Provider.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01. Representations and Warranties of the Provider. The Provider represents and warrants to the other parties hereto that:

(a) it is duly organized and validly existing under the laws of its jurisdiction, incorporation or establishment;

(b) it has the power and the authority to enter into and perform its obligations under this Agreement;

(c) this Agreement has been duly authorized, executed and delivered by it and, assuming the due authorization, execution and delivery hereof by the other parties hereto, constitutes a legal, valid and binding obligation of it enforceable against it in accordance with the terms hereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law;

(d) its execution and delivery of this Agreement and its performance of its obligations hereunder do not and will not constitute or result in a default under, a breach or violation of, or the creation of any lien or encumbrance on any of its property under, its charter or bylaws (or equivalent organizational documents), or any other agreement, instrument, law, ordinance, regulation, judgment, injunction or order applicable to it or any of its property;

(e) all consents, authorizations and approvals requisite for its execution, delivery and performance of this Agreement have been obtained and remain in full force and effect and all conditions thereof have been duly complied with, and no other action by, and no notice to or filing with, any governmental authority or regulatory body is required for such execution, delivery or performance; and

(f) there is no proceeding pending or threatened against it at law or in equity, or before any governmental instrumentality or in any arbitration, which would materially impair its ability to perform its obligations under this Agreement, and there is no such proceeding pending against it which purports or is likely to affect the legality, validity or enforceability of this Agreement.

Section 4.02. Representations and Warranties of the Issuer. The Issuer represents and warrants to the other parties hereto that:

(a) it is duly organized and validly existing under the laws of its jurisdiction, incorporation or establishment;

(b) it has the power and the authority to enter into and perform its obligations under this Agreement (including to pay the Termination Amount in accordance herewith and to enter into and perform its obligations under the Financing Documents to which it is a party);

(c) this Agreement has been duly authorized, executed and delivered by it and, assuming the due authorization, execution and delivery hereof by the other parties hereto, constitutes a legal, valid and binding obligation of it enforceable against it in accordance with the terms hereof, subject to applicable bankruptcy, insolvency and

similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law;

(d) its execution and delivery of this Agreement and its performance of its obligations hereunder do not and will not constitute or result in a default under, a breach or violation of, or the creation of any lien or encumbrance on any of its property under, its charter or bylaws (or equivalent organizational documents), or any other agreement (including the other Financing Documents to which it is a party), instrument, law, ordinance, regulation, judgment, injunction or order applicable to it or any of its property;

(e) all consents, authorizations and approvals requisite for its execution, delivery and performance of this Agreement have been obtained and remain in full force and effect and all conditions thereof have been duly complied with, and no other action by, and no notice to or filing with, any governmental authority or regulatory body is required for such execution, delivery or performance;

(f) there is no proceeding pending or threatened against it at law or in equity, or before any governmental instrumentality or in any arbitration, which would materially impair its ability to perform its obligations under this Agreement, and there is no such proceeding pending against it which purports or is likely to affect the legality, validity or enforceability of this Agreement or the Financing Documents;

(g) the amount specified in Exhibit E hereto for each Delivery Date as the Deposit Amount therefor is the Scheduled Debt Service Deposit that corresponds to such Delivery Date, assuming that no Bonds will have been defeased or redeemed on or prior to such date;

(h) it is not entitled to claim, and shall not assert any claim, with respect to itself or its revenues, assets or property (irrespective of the use or intended use thereof), of immunity on the grounds of sovereignty or similar grounds from suit, jurisdiction of any court, relief by way of injunction, order for specific performance or for recovery of property, attachment of its assets (whether before or after judgment, in aid of execution, or otherwise) and execution or enforcement of any judgment to which it or its revenues, assets or property might otherwise be entitled in any suit, action or proceeding relating to this Agreement in the courts of any jurisdiction, nor may there be attributed to the Issuer or its revenues, assets or property any such immunity (nor shall such attribution be claimed by the Issuer);

(i) it has entered into this Agreement for purposes of managing its borrowings or investments by increasing the predictability of its cash flow from earnings on its investments and not for purposes of speculation;

(j) each of the Financing Documents to which it is a party has been duly authorized, executed and delivered by it;

(k) assuming the due authorization, execution and delivery thereof by the other parties thereto, the Financing Documents to which it is a party constitute legal,

valid and binding obligations of the Issuer, enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law;

(l) the Financing Documents to which it is a party are in full force and effect on the date hereof and no amendment, waiver or course of dealing has amended or terminated any of the terms thereof since the original execution and delivery of the Financing Documents to which it is a party, except such as may have been delivered to the Provider pursuant to Section 6.01(e);

(m) no "event of default" or event which would with the passage of time or the giving of notice constitute an event of default has occurred and is continuing under any of the Financing Documents to which it is a party;

(n) it has not entered into any agreements providing for the investment of funds held in the Debt Service Fund except for this Agreement;

(o) each of the documents delivered to the Provider or its counsel pursuant to Section 6.01 are true, accurate and complete copies of such documents including all amendments, modifications and supplements thereto through the Closing Date;

(p) the Eligible Securities are permitted investments for the amounts held in the Debt Service Fund under the Indenture and applicable law; and

(q) its obligation to make deposits into the Revenue Fund constitutes its special obligation payable solely from the Revenues.

Section 4.03. Representations and Warranties of the Trustee. The Trustee represents and warrants to the other parties hereto that:

(a) it is duly organized and validly existing under the laws of its jurisdiction, incorporation or establishment;

(b) it has the power and the authority to enter into and perform its obligations under this Agreement (including to enter into and perform its obligations under the Financing Documents to which it is a party);

(c) this Agreement has been duly authorized, executed and delivered by it and, assuming the due authorization, execution and delivery hereof by the other parties hereto, constitutes a legal, valid and binding obligation of it enforceable against it in accordance with the terms hereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law;

(d) its execution and delivery of this Agreement and its performance of its obligations hereunder do not and will not constitute or result in a default under, a breach

or violation of, or the creation of any lien or encumbrance on any of its property under, its charter or bylaws (or equivalent organizational documents), or any other agreement (including the Financing Documents to which it is a party), instrument, law, ordinance, regulation, judgment, injunction or order applicable to it or any of its property;

(e) all consents, authorizations and approvals requisite for its execution, delivery and performance of this Agreement have been obtained and remain in full force and effect and all conditions thereof have been duly complied with, and no other action by, and no notice to or filing with, any governmental authority or regulatory body is required for such execution, delivery or performance;

(f) there is no proceeding that has been served on it or threatened against it at law or in equity, or before any governmental instrumentality or in any arbitration, which would materially impair its ability to perform its obligations under this Agreement, and there is no such proceeding pending against it which purports or is likely to affect the legality, validity or enforceability of this Agreement or the Financing Documents;

(g) each of the Financing Documents to which it is a party has been duly authorized, executed and delivered by it;

(h) assuming the due authorization, execution and delivery thereof by the other parties thereto, the Financing Documents to which it is a party constitute legal, valid and binding obligations of it, enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law;

(i) the Financing Documents to which it is a party are in full force and effect on the date hereof and no amendment, waiver or course of dealing has amended or terminated any of the terms thereof since the original execution and delivery of the Financing Documents to which it is a party, except such as may have been delivered to the Provider pursuant to Section 6.01(e); and

(j) it has no knowledge of any "event of default" or event which would with the passage of time or the giving of notice constitute an event of default has occurred and is continuing under the Financing Documents to which it is a party.

ARTICLE V

COVENANTS AND ACKNOWLEDGEMENTS

Section 5.01. Covenants. Each party hereto covenants to the other parties hereto that so long as it shall have any obligations under this Agreement it shall:

(a) maintain in full force and effect all authorizations and agreements of, and exemptions, consents, licenses, actions or approvals by, and all filings with or notices to, any governmental or other authority that are required to be obtained or made by such

party with respect to this Agreement and will use all reasonable efforts to obtain or make any that may become necessary in the future; and

(b) comply in all material respects with all applicable laws, rules, regulations and orders to which it may be subject if failure so to comply could materially impair its ability to perform its obligations under this Agreement.

Section 5.02. Additional Covenants of the Trustee, the Provider and the Issuer.

(a) In addition to its covenants under Section 5.01, the Issuer covenants to the other parties to this Agreement that so long as it shall have any obligations hereunder:

(i) it shall not partially or completely redeem, defease, purchase, repurchase, tender or refund the Bonds unless it shall have sufficient funds to pay the Termination Amount to the Provider pursuant to Section 3.01;

(ii) it shall not enter into, or request that the Trustee enter into, or consent to, or request that the Trustee consent to, any amendment or modification of any of the Financing Documents to which it is a party which could impair the rights or security of the Provider hereunder or under the Financing Documents or the ability of the Issuer or the Trustee to perform its obligations to the Provider hereunder; provided, however, that nothing contained herein (other than (i) above) shall restrict the Issuer's ability to issue refunding bonds under the Indenture;

(iii) it shall, at least 10 Business Days prior to the appointment of a successor trustee under the Indenture, give the Provider written notice thereof;

(iv) it shall give the Provider written notice of the removal or resignation of the Trustee within five Business Days of the date of such removal or resignation; and

(v) it shall, within two Business Days after a request from the Provider, provide such information regarding the Bonds and amounts held in the funds and accounts related thereto as the Provider may reasonably request and such other information as the Provider deems necessary to determine the Issuer's or the Trustee's compliance with the terms of this Agreement or the compliance of any party to any of the Financing Documents.

(b) In addition to its covenants under Section 5.01, the Trustee covenants to the other parties to this Agreement that so long as it shall have any obligations hereunder:

(i) it shall not enter into or consent to any amendment or modification of any of the Financing Documents to which it is a party which could impair the rights of the Provider or the Trustee's ability to perform its obligations to the Provider hereunder; and

(ii) it shall, within two Business Days after a request from the Provider, provide such information regarding the Bonds and amounts held in the

funds and accounts related thereto as the Provider may reasonably request and such other information as the Provider deems necessary to determine the Issuer's or the Trustee's compliance with the terms of this Agreement or the compliance of any party to any of the Financing Documents.

(c) In addition to its covenants under Section 5.01, the Provider covenants to the other parties to this Agreement that with respect to all Qualified Securities delivered pursuant to this Agreement, the Provider or the Qualified Dealer shall have good title to such Qualified Securities and such Qualified Securities shall not be subject to any liens, claims or interests of any party prior to their delivery to the Trustee.

Section 5.03. Regarding the Financing Documents.

(a) The Issuer will observe, perform and fulfill each of its covenants and other agreements in the Financing Documents to which it is a party. If any of the Financing Documents cease to be in effect prior to the termination of this Agreement, such covenants and other agreements (other than those provisions requiring payments in respect of bonds, notes, warrants or other similar instruments issued under the Indenture) shall be deemed to remain in full force and effect for purposes of this Agreement as though set forth herein until such date on which all of the obligations of the Issuer and the Trustee under this Agreement have been fully satisfied. Any amendment, supplement, modification or waiver of any of such covenants or other agreements which shall have the effect of impairing the ability of the Issuer or the Trustee to perform their respective obligations hereunder without the prior written consent of the Provider shall have no force and effect with respect to this Agreement.

(b) The Issuer shall provide the Provider with at least 10 Business Days prior written notice of any proposed amendment, supplement or modification of the Financing Documents to which it is a party whether or not the proposed amendment, supplement or modification will adversely affect the rights or obligations of the Provider under this Agreement. If the Issuer fails to comply with any covenants and other agreements in the Financing Documents to which it is a party or if the Issuer receives notice that any other party to any of the Financing Documents has failed to comply with any covenants or other agreements in the Financing Documents, the Issuer (and the Trustee, if the Trustee shall have actual knowledge of such failure) shall provide written notice of such failure to the Provider within one Business Day thereof.

(c) The Trustee shall deliver to the Provider a copy of any notice provided to the Insurance Policy Provider or the Seller related to a shortfall of funds in the Debt Service Fund.

Section 5.04. Role of the Provider.

(a) It is expressly understood and agreed that for all purposes of this Agreement and the transactions contemplated hereby, the Provider has acted solely as independent contractor and has not acted as a financial or investment advisor, fiduciary or

agent of or to the Issuer, the Trustee, any representative of the holders of the Bonds or any other person.

(b) Neither the Provider nor any of its directors, officers, employees, agents, affiliates or representatives have made any investigation with respect to or have any liability with respect to: (i) the tax treatment of interest paid on the Bonds; (ii) the payment of any amounts owing on or with respect to the Bonds; (iii) the use or application by the Trustee or the Issuer of any moneys payable to the Trustee hereunder; (iv) any acts or omissions of the Issuer or the Trustee under, or with respect to, the validity, tax exemption or enforceability of, the Bonds or the Financing Documents; or (v) the Trustee's or the Issuer's performance of its obligations under the Bonds or the Financing Documents or any other agreement or instrument with respect to the Bonds. Without limiting the foregoing, the Provider shall have no duty to ascertain whether the Trustee or the Issuer is in compliance with any applicable statute, regulation, law or the Financing Documents.

(c) The Issuer acknowledges that the economic terms of this Agreement have been individually negotiated by it and that, to the extent it has deemed necessary, it has consulted with its own legal, tax and investment advisors regarding its decision to enter into this Agreement. While the Issuer understands that by entering into this Agreement it is agreeing upon the rate of return it will receive during the term of this Agreement on amounts held in the Debt Service Fund and is thereby minimizing the risks resulting from fluctuations in interest rates during the term hereof, it is also foregoing the possibility of receiving greater returns on such amounts from such fluctuations.

Section 5.05. Termination Amount.

(a) Each of the Issuer, the Provider and the Trustee understands that if under any of the circumstances provided herein (including upon the occurrence of a partial or complete redemption, refunding, tender, purchase, repurchase or defeasance of the Bonds on or prior to the last Delivery Date), a Termination Amount would be due from the Issuer, the Provider or the Trustee, the size of such Termination Amount will vary depending, in large part, on prevailing interest rates at the time such Termination Amount is calculated. Under certain market conditions the amount of the Termination Amount owed to the Issuer, the Trustee or the Provider by, as applicable, the Trustee, the Provider or the Issuer, could be substantial.

(b) Upon any termination of this Agreement pursuant to Section 7.06 or Section 10.01 that would result in an Alternate Termination Amount being paid by the Issuer to the Provider, the Issuer agrees that it shall use its best efforts to assign this Agreement to a Replacement Provider or obtain a replacement forward delivery agreement with terms substantially similar to this Agreement from a Replacement Provider. The Issuer further agrees to assign this Agreement to or obtain a replacement forward delivery agreement from a Replacement Provider proposed by the Provider. In the event that any Alternate Termination Amount is payable by the Issuer pursuant to the terms of this Section 5.05(b), the Issuer agrees that it shall apply any upfront payment amount received by the Issuer from a Replacement Provider towards the payment of such

Alternate Termination Amount and pay such amount to the Provider. Such payment shall be made to the Provider in immediately available funds within two Business Days of the Issuer's receipt of such amount.

(c) The Issuer agrees to apply amounts in the Operating Fund to the payment of any amounts that are due to the Provider hereunder prior to the use of such amounts for any other purpose.

Section 5.06. Broker's Fees. Each of the Issuer and the Trustee acknowledges that the Provider has paid $0 as a broker's or arrangement fee to McDonald Partners, Inc.

ARTICLE VI

CLOSING CONDITIONS

Section 6.01. Closing Conditions. On or prior to the Closing Date the following shall occur:

(a) delivery to the Provider and the Issuer of an executed original opinion of counsel to the Trustee, in the form of Exhibit B;

(b) delivery to the Trustee and the Issuer of an executed original opinion of counsel to the Provider, in the form of Exhibit C;

(c) delivery to the Provider and the Trustee of an executed original opinion of counsel to the Issuer, in the form of Exhibit D;

(d) delivery to the Provider of executed original opinions of counsel to the Insurance Policy Provider and the Guarantor addressing the enforceability of the Insurance Policy, the Prepaid Gas Guarantee and the Funding Guarantee, either addressed to the Provider or stating that the Provider is entitled to rely thereon as if said opinions were addressed to it, in forms acceptable to the Provider;

(e) delivery to the Provider of an executed copy of each of the Financing Documents;

(f) delivery to the Provider of a copy of any consent received by the Issuer to enter into this Agreement; and

(g) delivery to the Provider of a copy of any statutory or regulatory authority pursuant to which the Issuer is authorized to enter into this Agreement or any resolution or resolutions of the Issuer pursuant to which the Issuer is authorized to enter into this Agreement.

Section 6.02. Post Closing Conditions. In the event that the Provider elects to close the transactions described in this Agreement without requiring that all of the conditions set forth in Section 6.01 be satisfied, the Issuer covenants and agrees that it shall cause all such unsatisfied conditions to be satisfied and cause all original executed signature pages to this Agreement to be

delivered to the Provider within three Business Days of the Closing Date. In the event that all such documents are not received by the Provider within three Business Days of the Closing Date, the Issuer shall pay, on demand, the fees and expenses of counsel to the Provider incurred in connection with the satisfaction of this Section 6.02.

ARTICLE VII

DEFAULTS; TERMINATION

Section 7.01. Trustee Events of Default. The occurrence of any of the following events shall constitute a Trustee Event of Default:

(a) the Trustee shall fail for any reason to apply any funds in the Debt Service Fund to purchase, at the Purchase Price therefor, any Qualified Securities delivered by the Provider in accordance with this Agreement and such failure is not cured within five Business Days after written notice thereof to the Trustee from the Provider or the Issuer;

(b) the Trustee shall default in the performance of any other covenant or obligation under this Agreement and such default is not cured within five Business Days of notice thereof from the Provider or the Issuer;

(c) any representation or warranty of the Trustee contained in this Agreement proves to have been incorrect, false or misleading in any material respect as of the date on which it was made; or

(d) the Trustee is at any time Insolvent.

Section 7.02. Issuer Events of Default. The occurrence of any of the following events shall constitute an Issuer Event of Default:

(a) the Issuer shall fail to deposit or cause funds to be deposited in the Debt Service Fund in accordance with the terms hereof or of the Indenture which causes the Trustee to fail to purchase, at the Purchase Price thereof, any Qualified Securities delivered hereunder;

(b) the Issuer shall default in the performance of any covenant or obligation under this Agreement, other than as described in clause (a) above and such default is not cured within five Business Days of notice thereof from the Provider or the Trustee;

(c) any representation or warranty of the Issuer contained in this Agreement proves to have been incorrect, false or misleading in any material respect as of the date on which it was made;

(d) the Issuer is dissolved (other than pursuant to a consolidation, amalgamation or merger) or becomes Insolvent;

(e) the interest and principal outstanding under the Bonds shall be declared due and payable at any time prior to the scheduled maturity thereof;

(f) there shall be an investment of amounts in the Debt Service Fund other than pursuant to this Agreement other than during the period funds are transferred to the Debt Service Fund and the next succeeding Deposit Date and de minimus amounts that have accrued as interest on such investments;

(g) the Issuer consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another entity (or, without limiting the foregoing, if an entity such as an organization, board, commission, authority, agency or body succeeds to the principal functions of, or powers and duties granted to, the Issuer) and, at the time of such consolidation, amalgamation, merger or transfer either (i) the resulting, surviving or transferee entity fails to assume all of the obligations of the Issuer under this Agreement or by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement, or (ii) the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of the Issuer;

(h) a default, event of default or other similar condition or event (however described), including, without limitation, a default in making all or any portion of one or more payments on the due date thereof (after giving effect to any applicable notice requirement or grace period), occurs in respect of the Issuer under any of the Financing Documents or one or more agreements or instruments relating to the Specified Indebtedness of the Issuer;

(i) without the prior written consent of the Provider, either the Insurance Policy, the Prepaid Gas Guarantee or the Funding Guarantee is cancelled, terminated, amended, modified or supplemented or an alternate insurance policy or guarantee is substituted for any of the Insurance Policy, the Prepaid Gas Guarantee or the Funding Guarantee; or

(j) any provision of this Agreement or the Financing Documents shall cease to be valid and binding on any party thereto, or any party thereto shall contest any such provision, or any party thereto or any agent or trustee on behalf of any of them, shall deny that it has any further liability under any provision of this Agreement or any of the Financing Documents.

Section 7.03. Provider Events of Default. The occurrence of any of the following events shall constitute a Provider Event of Default:

(a) the Provider shall fail, on any Delivery Date, to deliver Qualified Securities for any reason other than one caused by a Trustee Event of Default or an Issuer Event of Default and such failure is not cured within five Business Days after written notice thereof to the Provider from the Trustee or the Issuer (the "Provider Cure Period"); provided, however, that if such failure is caused by the failure of the Trustee to provide the Provider with complete or correct delivery instructions, such failure shall not constitute a Provider Event of Default, and if the Trustee shall not have provided complete and correct delivery instructions to the Provider within one Business Day of written or telephonic request from the Provider, such failure shall constitute a Trustee Event of Default;

(b) the Provider shall default in the performance of any covenant or obligation under this Agreement, other than as described in clause (a) above and such default is not cured within five Business Days of written notice thereof from the Issuer or the Trustee;

(c) any representation or warranty of the Provider contained in this Agreement proves to have been incorrect, false or misleading in any material respect as of the date on which it was made; or

(d) the Provider is at any time Insolvent.

Section 7.04. Remedies Upon Occurrence of a Trustee Event of Default. Upon the occurrence of a Trustee Event of Default, the Provider shall have the right to:

(a) redeliver to the Trustee the Qualified Securities which were to be delivered in connection with any Delivery Date and which have not theretofore been delivered to and purchased by the Trustee and, subject to Section 8.02, make demand for the payment of its losses (calculated in accordance with Section 7.07) arising out of the Trustee's failure to purchase such Qualified Securities; and/or

(b) request that the Trustee resign or be removed as Trustee under the Indenture and be replaced by a successor trustee in accordance with the terms of the Indenture within 30 days of such request. The Provider shall provide the Issuer and the Trustee with a copy of such request. In the event that the Provider elects to request the Trustee's resignation or removal as provided in this Section 7.04(b), the Trustee, subject to Section 8.02, shall be responsible for the payment of Loss Amount (calculated in accordance with Section 7.07(a)) from the day of the Trustee Event of Default until the day that a successor trustee assumes all of the Trustee's obligations under the Financing Documents and this Agreement. In the event that a successor trustee has not been appointed prior to the expiration of the 30-day period described above in this Section 7.04(b), the Provider shall have the right to immediately terminate this Agreement by giving notice thereof to the Trustee with a copy to the Issuer and, subject to Section 8.02, (i) if the Termination Amount is a positive number, make demand upon the Trustee for the payment of the Termination Amount, and the Trustee shall pay such amount to the Provider, and (ii) if the Termination Amount is a negative number, pay such Termination Amount to the Trustee.

If the Termination Amount is payable pursuant to this Section 7.04(b), subject again to Section 8.02, the party owing such amount shall promptly, but by no later than one Business Day after notice that such amount is due from the party to whom such Termination Amount is due, pay such amount, in immediately available funds, to the party to whom such Termination Amount is due. If any such amount is not paid when due, the party owing such amount shall pay interest on such amount for each date such amount is due and not paid at the Default Rate. Any amounts payable pursuant to Section 7.07 shall be payable upon demand as provided therein. If any Termination Amount or amount payable pursuant to Section 7.07(a) is due and owing by the Trustee and not paid in accordance with the terms of this Agreement or would be payable by the Trustee without the operation of Section 8.02, the Provider may make demand upon the Issuer, and the Issuer shall pay, upon demand, such amount to the Provider.

Section 7.05. Remedies Upon Occurrence of Issuer Event of Default. Upon the occurrence of an Issuer Event of Default, the Provider shall have the right to:

(a) if such Issuer Event of Default is pursuant to Section 7.02(a), redeliver to the Trustee or sell to any other purchaser the Qualified Securities which were to be delivered in connection with any Delivery Date and which have not theretofore been delivered to and purchased by the Trustee and make demand for the payment of its losses (calculated in accordance with Section 7.07) arising out of the Trustee's failure to purchase such Qualified Securities and if such Event of Default shall continue for a period of forty-five (45) days, the Provider may immediately terminate this Agreement by giving notice thereof to the Issuer with a copy to the Trustee, and (i) if the Termination Amount is a positive number, make demand upon the Issuer for the payment of the Termination Amount, and the Issuer shall pay such amount to the Provider, and (ii) if the Termination Amount is a negative number, pay such amount to the Trustee; and/or

(b) if such Issuer Event of Default is pursuant to Section 7.02(b), (c), (d), (e), (f), (g), (h), (i) or (j), immediately terminate this Agreement by giving notice thereof to the Issuer with a copy to the Trustee, and (i) if the Termination Amount is a positive number, make demand upon the Issuer for the payment of the Termination Amount, and the Issuer shall pay such amount to the Provider, and (ii) if the Termination Amount is a negative number, pay such amount to the Trustee.

If a Termination Amount is payable pursuant to this Section 7.05(b), the party owing such amount shall promptly, but by no later than one Business Day after notice that such amount is due from the party to whom such Termination Amount is due, pay such amount, in immediately available funds, to or at the direction of the party to whom such Termination Amount is due. If any such amount is not paid when due, the party owing such amount shall pay interest on such amount for each date such amount is due but not paid at the Default Rate. Any amounts payable pursuant to Section 7.07 shall be payable upon demand as provided therein.

Section 7.06. Remedies Upon Occurrence of Provider Event of Default. Upon the occurrence of a Provider Event of Default, the Issuer shall have the right to:

(a) if such default is a default under Section 7.03(a), apply the Deposit Amount to purchase Permitted Investments in accordance with Section 2.01 hereof and make demand for the payment of its losses in connection therewith, calculated as provided in Section 7.07(b).

(b) if such default is a default under Section 7.03(a) and the Provider has failed to pay the Issuer's losses (as described in Section 7.07(b)) upon demand therefor or if such default is a default under Sections 7.03(b) or (c) hereof, immediately terminate this Agreement by giving notice thereof to the Provider with a copy to the Trustee, whereupon the Provider shall determine the Termination Amount and if the Termination Amount is a negative number, the Provider shall promptly, but no later than one Business Day after notice that such amount is due, pay such amount, in immediately available funds, to the Trustee. Notwithstanding anything to the contrary in this Agreement, if the

Provider fails to determine the Termination Amount within three Business Days of its receipt of notice from the Issuer or the Trustee of the occurrence of the Provider Event of Default then the Issuer (or if so directed by the Issuer, the Trustee) shall make such determination as if it were the Provider and the amount as so determined by the Issuer (or the Trustee) shall for purposes of this Section 7.06 be deemed the Termination Amount.

If the Issuer terminates this Agreement pursuant to this Section and the Termination Amount is a positive number, the Issuer shall assign this Agreement or obtain a replacement forward delivery agreement in accordance with Section 5.05 from a replacement Qualified Provider (the "Replacement Provider") and pay to the Provider the Alternate Termination Amount in accordance with Section 5.05.

If any Termination amount or Alternate Termination Amount is not paid on the date of termination of this Agreement, the party owing such amount shall pay interest on such amount for each date such amount is due but not paid at the Default Rate.

Section 7.07. Loss Amount if Failed or Late Purchase.

(a) If (i) the Trustee fails to apply any funds in the Debt Service Fund to purchase any Qualified Securities delivered by the Provider in accordance with this Agreement or (ii) if on any Delivery Date the amount on deposit in the Debt Service Fund available for investment hereunder is less than the Deposit Amount for such Delivery Date, the Trustee in the case of clause (i) or the Issuer in the case of clause (ii), shall pay to the Provider, as liquidated damages for its losses and not as a penalty, on demand by the Provider, the interest at the Federal Funds Rate on the Purchase Price of the Qualified Securities which the Provider tendered for delivery to, but were not purchased by, the Trustee for each day from and including the delivery date thereof to but excluding the date on which such securities are redelivered to the Trustee (the "Loss Amount"); provided that if such failure arises in connection with a delivery of Qualified Securities pursuant to Section 2.03(a) hereof, the Provider's damages shall be calculated as the sum of (x) the excess of the Market Value, including any accrued interest thereon, of the Previously Purchased Securities which were to be used to purchase such Qualified Securities over the Market Value of such Qualified Securities and (y) interest at the Federal Funds Rate on such excess from the date of attempted delivery to the Trustee in accordance with this Agreement to but excluding the date on which the Trustee or the Issuer, as applicable, compensates the Provider for its losses. All calculations of default interest herein shall be calculated on the basis of daily compounding. Notwithstanding the foregoing, if the Provider does not on any date cause the delivery of Qualified Securities because the amount in the Debt Service Fund is less than the Deposit Amount, the Loss Amount shall equal the sum of (A) the amount, if any, by which the aggregate Maturity Amount of the Qualified Securities which the Provider could have caused to be delivered exceeds the Market Value thereof as of the date such tender was to be made and (B) interest on such amount at the Federal Funds Rate for each date from the date such securities could have been delivered to the next succeeding Bond Payment Date.

(b) If there is a Provider Event of Default as described in Section 7.03(a) hereof, the amount of losses payable by the Provider upon demand therefor pursuant to

Section 7.06(a) shall equal the excess, if any, of (i) interest the Trustee would have earned on the Deposit Amount had the Deposit Amount been invested in Qualified Securities at the Guaranteed Rate, calculated on the basis of a year of 360 days with twelve 30-day months, over the amount of the (ii) interest the Trustee actually earned by investing the related Deposit Amount in Permitted Investments in accordance with Section 2.01 hereof (or if the Trustee fails to invest such Deposit Amount in Permitted Investments in accordance with Section 2.01, the amount of interest the Trustee would have earned on such Deposit Amount had such amounts been invested by the Trustee in Permitted Investments).

Section 7.08. Application of Excess Funds. The Issuer hereby directs the Trustee and the Trustee agrees that if at any time any amounts are due the Provider from the Issuer in connection with an Issuer Event of Default, the Trustee shall, upon demand from the Provider, and without further direction or instruction from the Issuer, apply any funds available under the Indenture which are not subject to the lien of the Indenture (including any funds which would otherwise be released to the Issuer) to the payment of such amounts.

Section 7.09. Limitation on Rights.

(a) The Provider shall not have any right to any amounts held in the Debt Service Fund except as expressly provided herein upon the delivery of a Qualified Security in accordance with this Agreement. Once paid to the Provider, neither the Issuer, the Trustee, the bondholders or any person other than the Provider shall have any rights to the Purchase Price.

(b) All Qualified Securities sold to the Trustee pursuant hereto are owned by the Trustee and not by the Provider. No party hereto shall have recourse against the Provider for any failure by the issuer or obligor of any Qualified Securities to perform its obligations with respect to the Qualified Securities.

Section 7.10. No Waiver; Remedies Cumulative. No failure or delay on any party's part in exercising any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The parties' rights and remedies hereunder are cumulative and not exclusive of any rights or remedies provided by law, this Agreement or otherwise. None of the terms or provisions of this Agreement may be waived, modified or amended except as provided in Section 9.05.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Direction by Issuer to Trustee; Acceptance by Trustee.

(a) Pursuant to the power and authority granted to the Issuer by the Indenture, the Issuer hereby authorizes and irrevocably directs the Trustee to take the action and to make the purchases required by this Agreement.

(b) By execution and delivery of this Agreement, the Trustee accepts its duties and obligations hereunder, as an addition to its duties and obligations as Trustee under the Indenture.

Section 8.02. Liability of the Trustee; Consultation with Legal Counsel.

(a) The Trustee shall not be liable to any person for any action taken or neglected to be taken in performing or attempting to perform its obligations hereunder, in preserving or seeking to preserve the funds it maintains under the Indenture or in purchasing the Qualified Securities tendered pursuant to this Agreement, except for actions arising from its negligence or willful misconduct, from its intentional or knowing nonperformance of its obligations under this Agreement, for a breach of its covenant contained in Section 5.02(b) or for a breach of its representations or warranties under this Agreement.

(b) The Trustee may consult with counsel reasonably satisfactory to the Provider with respect to any question relating to its duties or responsibilities hereunder or otherwise in connection herewith and, except as expressly provided herein, shall not be liable for any action taken, suffered or omitted by the Trustee in good faith upon the advice of such counsel. The Trustee may act through its officers, employees, agents and attorneys.

Section 8.03. Payment of Trustee Fees. The Provider has no liability or responsibility for payment of the Trustee's fees or expenses for its services hereunder, including any such fees or expenses arising out of or in connection with the liquidation of the Qualified Securities as provided herein.

Section 8.04. Trustee Cooperation.

(a) The Trustee shall not act in contravention of its obligations hereunder or invest amounts in the Debt Service Fund other than pursuant to this Agreement other than during the period funds are transferred to the Debt Service Fund and the next succeeding Deposit Date and de minimus amounts that have accrued as interest on such investments.

(b) The Trustee shall not make any payments or distributions from the Debt Service Fund other than payments or distributions (i) required by this Agreement, (ii) to pay principal of, redemption premium and interest on the Bonds, or (iii) to make payments required by the Indenture.

Section 8.05. Successor Trustee. If the Trustee shall resign or be discharged from its duties and obligations under the Indenture, the Issuer shall appoint a successor trustee pursuant to the terms of the Indenture; provided, however, the successor trustee shall satisfy the requirements of a successor trustee as set forth in the Indenture on the date hereof. The Issuer agrees that, to the extent permitted by the Indenture, if the Trustee fails for any reason to perform its duties to the Provider under this Agreement in accordance with the terms hereof, or is at any time Insolvent or breaches in any material respect its representations and warranties to the Provider hereunder, the Issuer shall promptly, upon request of the Provider, appoint a successor

trustee satisfying the requirements of a successor trustee as set forth in the Indenture on the date hereof.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Notices and Delivery Instructions. All notices, demands or other communications hereunder shall be given or made in writing and shall be delivered personally, or sent by certified or registered mail, postage prepaid, return receipt requested, or overnight delivery service or facsimile to the party to whom they are directed at the following addresses, or facsimile numbers or at such other addresses or facsimile numbers as may be designated by notice from such party to all other parties:

To the Provider:

Wachovia Bank, N.A.
CIB Group
201 South College Street, NC 0601
Charlotte, NC 28288-0601
Attention: Mr. Drew Loper
Telephone: (704) 383-7798
Facsimile: (704) 383-9026

Wachovia Bank, N.A.
CIB Group
One Wachovia Center
301 South College Street, DC 8
Charlotte, NC 28288-0600
Attention: Mr. Bruce M. Young
Senior Vice President
Telephone: (704) 383-5485

Delivery: BK of NYC/FUNBBT
ABA #: 021000018

Provider Settlements:

Municipal Support
Telephone: (704) 383-9408 or (704) 374-2146
Facsimile: (704) 383-9026

US Government and Agency Issues:
Fed Book Entry
ABA 021000018
Bk of NYC/FUNBBT

Mortgage Backed Securities:
Bk of NYC/FUNBTMBS
ABA 021000018

DTC Book Entry:
Participant: 2072
Agent Bank: 52196
Institutional ID: 52196

Physical:
The Bank of New York
1 Wall Street
3rd Floor-Window B
ASP# 117629

Global Instructions: CEDEL No. 86013

To the Trustee: The Bank of New York Trust Company, N.A.
Suite 600
550 Kearny Street
San Francisco, CA 94108
Attention: Ms. Sally Ronquillo
Telephone: (415) 263-2412
Facsimile: (415) 263-2064
E-mail: rronquillo@bankofny.com
Account Name and Number: Roseville Natural Gas 400109

FOR DELIVERY OF BOOK ENTRY GOVERNMENT OBLIGATIONS:

The Bank of New York
ABA #021000018
BK of NYC/CUST/400109
Account Name: Roseville Natural Gas
Attn: Sally Ronquillo (415) 263-2412

FOR DELIVERY OF DTC-ELIGIBLE SECURITIES:

The Bank of New York
DTC Participant: 901
Agent ID: 26500
Institutional ID: 26662
Account Number: 400109
Account Name: Roseville Natural Gas
Attn: Sally Ronquillo (415) 263-2412

To the Issuer: Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678
Attention: Mr. Russ Branson
Telephone: (916) 774-5320
Facsimile: (916) 746-1220
E-mail: rbranson@roseville.ca.us
Issuer's Tax Payer I.D. #: [PLEASE PROVIDE]

Any notice, demand or other communication given in a manner prescribed in this Section shall be deemed to have been delivered on receipt.

Section 9.02. Binding Effect; Transfer. This Agreement shall be binding upon the Trustee, the Issuer and the Provider and upon their respective permitted successors and transferees. The Provider shall be entitled to transfer this Agreement, and its interests and obligations hereunder (a) without the consent of the Issuer or the Trustee, to any subsidiary or affiliate of the Provider, or to any office, branch or subsidiary of any affiliate of the Provider, so long as such transferee is a Qualified Provider, by giving written notice to the Issuer and the Trustee of such transfer and the name of the transferee and (b) with the Issuer's prior written consent (such consent not to be unreasonably withheld, conditioned or delayed) and upon notice to the Trustee, to any other Qualified Provider; provided however, that if the Issuer has not consented or objected to such transfer in writing within 30 days of the Provider's request therefor, the Issuer's consent shall be deemed to have been given and the Provider may transfer this Agreement. Such transferee shall immediately assume the rights and obligations of the Provider hereunder and upon such transfer shall for all purposes become the Provider under this Agreement. Neither the Issuer nor the Trustee may transfer this Agreement without the prior written consent of the Provider and the other party.

Section 9.03. Limitation. Nothing expressed or implied herein is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto, any right, remedy or claim by reason of this Agreement or any term hereof, and all terms contained herein shall be for the sole and exclusive benefit of the parties hereto, and their successors and permitted transferees.

Section 9.04. Severability. If one or more provisions of this Agreement or the applicability of any such provisions to any set of circumstances shall be determined to be invalid or ineffective for any reason, such determination shall not affect the validity and enforceability of the remaining provisions or the applicability of the same provisions or any of the remaining provisions to other circumstances.

Section 9.05. Amendments, Changes and Modifications. This Agreement may be amended or any of its terms modified only by a written document authorized, executed and delivered by each of the parties hereto.

Section 9.06. Counterparts. This Agreement may be executed in one or more counterparts and when each party hereto has executed at least one counterpart, this Agreement

shall become binding on all parties and such counterparts shall be deemed to be one and the same document.

Section 9.07. Termination. Unless earlier terminated pursuant to Sections 3.01, 7.04, 7.05, 7.06, or 10.01, this Agreement shall terminate on the later of the date on which the Provider, the Issuer and the Trustee have satisfied all of their obligations hereunder and last Bond Payment Date set forth in Exhibit E.

Section 9.08. Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

Section 9.09. Delivery of Financial Statements. The Issuer agrees that it will deliver to the Provider its annual financial statements, promptly upon their availability.

Section 9.10. Submission to Jurisdiction. The Provider, the Trustee and the Issuer each hereby irrevocably submits to the nonexclusive jurisdiction of any court of the State of California for the purpose of any suit, action or other proceeding arising out of this Agreement, or any of the agreements or transactions contemplated hereby, at the election of the party initiating any such suit, action or other proceeding, which is brought by or against the Provider, the Trustee or the Issuer, and the parties each hereby irrevocably agrees that all claims in respect of any such suit, action or proceeding may be heard and determined by any such court.

Section 9.11. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of law principles; provided, however, that the rights, duties and powers of the Issuer shall be governed by the laws of the State of California, without regard to conflict of law principles.

Section 9.12. Use of Qualified Dealer. The Provider may use a Qualified Dealer in effecting the sales of Qualified Securities as contemplated herein.

Section 9.13. Waiver of Jury Trial. Each party hereto irrevocably waives, to the fullest extent permitted by applicable law, any and all right to a trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

ARTICLE X

DOWNGRADE; OPTIONAL TERMINATION

Section 10.01. Downgrade.

(a) In the event that the rating assigned to the senior unsecured long-term debt obligations of the Provider falls below "AA-" by S&P , "Aa3" by Moody's or "AA-" by Fitch, the Provider shall provide written notice of such event to the Trustee and the Issuer within 5 Business Days of its occurrence. Within 10 Business Days of the delivery of such notice, the Provider shall have the right to (i) assign this Agreement to a party the senior unsecured long-term debt obligations or claims-paying ability of which are rated "AA-" or higher by S&P, "Aa3" or higher by Moody's and "AA-" or higher by Fitch;

(ii) obtain a guaranty of its obligations under this Agreement from a party the senior unsecured long-term debt obligations or claims-paying ability of which are rated "AA-" or higher by S&P, "Aa3" or higher by Moody's and "AA-" or higher by Fitch; or (iii) deliver Collateral having a market value not less than the applicable percentage amount set forth on Exhibit F to secure the Provider's obligation to pay Termination Amount hereunder (the "Required Percentage") to an independent third party custodian selected by the Provider (and reasonably acceptable to the Trustee), whose senior unsecured long-term debt obligations are rated at least "Aa3" by Moody's, "AA-" by S&P and "AA-" by Fitch, which custodian shall (x) have a perfected first security interest in such Collateral, (y) hold such Collateral free and clear of the liens and claims of third parties and (z) determine the market value of such Collateral at least weekly and immediately notify the Provider of any deficiency, which deficiency shall be cured within one Business Day of the Provider's receipt of notice of such deficiency. The Provider shall be responsible for payment of all costs associated with the delivery of Collateral under this Section. The Trustee and the Issuer agree to cooperate with the Provider in order to facilitate any such action.

(b) In the event that (i) the rating assigned to the senior unsecured long-term debt obligations of the Provider is suspended, withdrawn or falls below "A+" by S&P, "A1" by Moody's or "A+" by Fitch, (ii) if the Provider fails to maintain at least two of the following ratings on its senior unsecured long-term debt obligations: "AA-" by S&P, "AA-" by Fitch and "Aa3" by Moody's or (iii) in the event that action is not taken by the Provider as provided in Section 10.01(a), the Issuer may terminate this Agreement and the Provider shall determine the Termination Amount and if the Termination Amount is a negative number, the Provider shall promptly, but no later than one Business Day after notice that such amount is due, pay such amount, in immediately available funds, to the Trustee.

(c) If the Issuer terminates this Agreement pursuant to this Section and the Termination Amount is a positive number, the Issuer shall assign this Agreement or obtain a replacement forward delivery agreement in accordance with Section 5.05 from a Replacement Provider and pay to the Provider the Alternate Termination Amount in accordance with Section 5.05.

(d) If any Termination Amount or Alternate Termination Amount is not paid on the date of the termination of this Agreement, the party owing such amount shall pay interest on such amount for each date such amount is due but not paid at the Default Rate.

Section 10.02. Optional Termination.

(a) At any time on or after the Optional Termination Date, the Issuer shall have the right to terminate this Agreement, by the delivery of at least 30 days notice to the other parties hereto, whereupon the Provider shall determine the Optional Termination Amount and (i) if the Optional Termination Amount is a positive number, make demand upon the Issuer for the payment of the Optional Termination Amount, and (ii) if the Optional Termination Amount is a negative number, pay such Optional Termination Amount to the Trustee.

(b) If the Optional Termination Amount is payable pursuant to this Section 10.02, the party owing such amount shall promptly, but by no later than one Business Day after notice that such amount is due, pay such amount, in immediately available funds, to or at the direction of the party to whom such Optional Termination Amount is due. Upon payment of the Optional Termination Amount, this Agreement shall terminate.

(c) The Issuer agrees that it shall not exercise its right to terminate this Agreement pursuant to this Section unless sufficient funds are available to pay the Optional Termination Amount.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Trustee, the Issuer and the Provider have caused this Debt Service Forward Delivery Agreement to be executed by their respective duly authorized officers, all as of the date and year first above written.

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee

By _____
Name SALLY RONQUILLO
Title ASSISTANT VICE PRESIDENT

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By _____
Name _____
Title _____

WACHOVIA BANK, NATIONAL ASSOCIATION

By _____
Name _____
Title _____

IN WITNESS WHEREOF, the Trustee, the Issuer and the Provider have caused this Debt Service Forward Delivery Agreement to be executed by their respective duly authorized officers, all as of the date and year first above written.

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee

By _____
Name _____
Title _____

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By W. Craig Robinson
Name W. Craig Robinson
Title Executive Director

WACHOVIA BANK, NATIONAL ASSOCIATION

By _____
Name _____
Title _____

IN WITNESS WHEREOF, the Trustee, the Issuer and the Provider have caused this Debt Service Fund Forward Delivery Agreement to be executed by their respective duly authorized officers, all as of the date and year first above written.

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee

By _____
Name _____
Title _____

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By _____
Name _____
Title _____

WACHOVIA BANK, NATIONAL ASSOCIATION

By _____
Name Adam Howard
Title Vice President

EXHIBIT A

ELIGIBLE SECURITIES

1) Non-callable obligations which are: (i) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America; or (ii) obligations unconditionally guaranteed as to principal and interest by the United States of America; or (iii) evidences of ownership interests in such direct or unconditionally guaranteed obligations;

2) Bonds, debentures, notes and other evidences of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies or corporations:

(a) Federal Home Loan Bank System - senior debt obligations;

(b) Federal Home Loan Mortgage Corporation – participation certificates and senior debt obligations;

(c) Federal National Mortgage Association – mortgage-backed securities and senior debt obligations;

(d) Resolution Funding Corporation;

(e) Farm Credit System – consolidated system-wide bonds and notes; or

3) Commercial paper rated, at the time of purchase, "P-1" by Moody's and "A-1+" by S&P.

EXHIBIT B

OPINION OF COUNSEL TO TRUSTEE

[LETTERHEAD OF COUNSEL TO TRUSTEE]

February 6, 2007

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

Wachovia Bank, National Association
CIB Group
One Wachovia Center
301 South College Street
Charlotte, NC 28288-0601

Roseville Natural Gas Financing Autl
Gas Revenue Bonds
Series 2007

Ladies and Gentlemen:

We have acted as counsel to The Bank of New York Trust Company, N.A. (the "Trustee") in connection with the execution and delivery by the Trustee of the Debt Service Fund Forward Delivery Agreement, dated as of February 1, 2007 (the "Agreement"), by and among the Trustee, Roseville Natural Gas Financing Authority (the "Issuer") and Wachovia Bank, National Association. Capitalized terms used herein and not defined herein have the respective meanings given to them in the Agreement.

In connection with the rendering of this opinion, we have examined the Agreement, the Financing Documents and such other documents, records, certificates and instruments as we have deemed necessary in connection with the rendering of this opinion (such documents are collectively referred to herein as the "Documents"). In such examination we have assumed, without any independent investigation or inquiry on our part: (i) the genuineness of all signatures (other than those of the Trustee) on each of the Documents; (ii) the legal capacity of all natural persons who have signed the Documents; (iii) the authenticity of all Documents submitted to us as originals, the conformity to the original documents of all Documents submitted to us as certified, facsimile or photostatic copies or in electronic form and the authenticity of the originals of all such Documents; (iv) that each of the parties (other than the Trustee) to the Documents has been duly formed and organized and is validly existing and in good standing under the laws of the jurisdiction of its incorporation or establishment; (v) that each of the parties (other than the Trustee) to the Documents (A) has duly authorized, executed and delivered such Documents, (B) has all requisite power and authority to enter into and perform its respective obligations

under such Documents and (C) has obtained, secured or made all consents and approvals of, notice to, or registrations required with or by any governmental authorities, agencies or instrumentalities in connection with its execution, delivery and performance of, the Documents to which it is a party; (vi) the execution, delivery and performance by each of the parties (other than the Trustee) of such Documents which it is a party will not contravene any provision of such party's articles of incorporation, by-laws, articles of organization, operating agreement, certificate of formation, limited liability company agreement or other governing instrument; and (vii) that there are no other agreements or understandings among the parties to such Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties thereto that would, in any case, define, supplement, alter or qualify the terms of such Documents. As to all matters of fact we have relied in good faith on certificates and other statements of public officials and officers and other representatives of the Trustee, and we have made no inquiries to establish or verify these or any other facts material to this opinion.

In giving the opinions expressed below we do not purport to be experts in or generally familiar with or qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States of America and the laws of the State of New York (the "State"). We express no opinion as to the validity or enforceability of any choice of law, choice of forum or waiver provision contained in the Agreement. We express no opinion as to the availability of equitable remedies to persons seeking to enforce the obligations of the Trustee under the Agreement.

Based upon the foregoing examination and review, we are of the opinion that:

(a) The Trustee has full legal right, power and authority to enter into the Agreement.

(b) The Agreement has been duly authorized, executed and delivered by the Trustee.

(c) The Agreement is a legal, valid and binding obligation of the Trustee, enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(d) The execution and delivery by the Trustee of the Agreement and the performance of its obligations thereunder do not and will not conflict with or constitute or result in a default under, a breach or violation of, or the creation of any lien or encumbrance on any of its property under, its charter or bylaws, or the Financing Documents or any other agreement, instrument, judgment, injunction or order applicable to it or any of its property.

(e) The Financing Documents to which the Trustee is a party are legal, valid and binding obligations of the Trustee, enforceable against it in accordance with the

terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

We are furnishing this opinion to you solely for your benefit and no other person is entitled to rely hereon. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose. This opinion is given as of the date hereof and we expressly disclaim any responsibility to update this opinion or advise you of any changes of law, facts or circumstances of any kind that may occur after the date hereof which might affect the opinion expressed herein.

Very truly yours,

EXHIBIT C

OPINION OF COUNSEL TO PROVIDER

[LETTERHEAD OF COUNSEL TO PROVIDER]

February 6, 2007

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

The Bank of New York Trust Company, N.A., as Trustee
Suite 600
550 Kearny Street
San Francisco, CA 94108

Roseville Natural Gas Financing Authority
Gas Revenue Bonds
Series 2007

Ladies and Gentlemen:

We have acted as counsel to Wachovia Bank, National Association (the "Provider"), in connection with its execution and delivery of the Debt Service Fund Forward Delivery Agreement, dated as of February 1, 2007 (the "Agreement"), by and among Roseville Natural Gas Financing Authority (the "Issuer"), The Bank of New York Trust Company, N.A. (the "Trustee") and the Provider. Capitalized terms used herein and not defined herein have the respective meanings given to them in the Agreement.

In connection with the rendering of this opinion, we have examined the Agreement and such other documents, records, certificates and instruments as we have deemed necessary in connection with the rendering of this opinion (such documents are collectively referred to herein as the "Documents"). In such examination we have assumed, without any independent investigation or inquiry on our part: (i) the genuineness of all signatures on each of the Documents; (ii) the legal capacity of all natural persons who have signed the Documents; (iii) the authenticity of all Documents submitted to us as originals, the conformity to the original documents of all Documents submitted to us as certified, facsimile or photostatic copies or in electronic form and the authenticity of the originals of all such Documents; (iv) that each of the parties (other than the Provider) to the Documents has been duly formed and organized and is validly existing and in good standing under the laws of the jurisdiction of its incorporation or establishment; (v) that each of the parties (other than the Provider) to the Documents (A) has duly authorized, executed and delivered such Documents, (B) has all requisite power and authority to enter into and perform its respective obligations under such Documents and (C) has obtained, secured or made all consents and approvals of, notice to, or registrations required with

or by any governmental authorities, agencies or instrumentalities in connection with its execution, delivery and performance of, the Documents to which it is a party; (vi) the execution, delivery and performance by each of the parties (other than the Provider) of such Documents which it is a party will not contravene any provision of such party's articles of incorporation, by-laws, articles of organization, operating agreement, certificate of formation, limited liability company agreement or other governing instrument; and (vii) that there are no other agreements or understandings among the parties to such Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties thereto that would, in any case, define, supplement, alter or qualify the terms of such Documents. As to all matters of fact we have relied in good faith on certificates and other statements of public officials and officers and other representatives of the Provider, and we have made no inquiries to establish or verify these or any other facts material to this opinion.

In giving the opinions expressed below we do not purport to be expert in or generally familiar with or qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States and the laws of the State of New York and the opinions expressed herein are limited to the federal laws of the United States and the laws of the State of New York. We express no opinion as to the validity or enforceability of any choice of law, choice of forum or waiver provision contained in the Agreement. We express no opinion as to the availability of equitable remedies to persons seeking to enforce the obligations of the Bank under the Agreement.

Based upon the foregoing examination and review, we are of the opinion that:

(a) The Provider has full corporate power and authority to enter into the Agreement.

(b) The Agreement has been duly authorized, executed and delivered by the Provider and constitutes a legal, valid and binding obligation of the Provider, enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

This opinion may be relied upon by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or Fitch Ratings to the extent any assign investment ratings to the Bonds, as if this opinion were addressed to them.

This opinion is limited to the matters expressly set forth above, and no opinion is implied or may be inferred beyond the matters expressly so stated. This opinion is delivered to you, and any rating agency referenced in the preceding paragraph, in connection with the above-referenced transaction and may not be utilized or quoted by you, or such rating agency, for any other purpose whatsoever or delivered to any other person without our prior written consent. This opinion is given as of the date hereof and we expressly disclaim any responsibility to update this opinion or advise you of any changes of law, facts or circumstances of any kind that may occur after the date hereof which might affect the opinion expressed herein.

Very truly yours,

EXHIBIT D

OPINION OF COUNSEL TO ISSUER

[LETTERHEAD OF COUNSEL TO ISSUER]

February 6, 2007

The Bank of New York Trust Company, N.A., as Trustee
Suite 600
550 Kearny Street
San Francisco, CA 94108

Wachovia Bank, National Association
CIB Group
One Wachovia Center
301 South College Street
Charlotte, NC 28288-0601

Roseville Natural Gas Financing Authority
Gas Revenue Bonds
Series 2007

Ladies and Gentlemen:

We have acted as counsel to Roseville Natural Gas Financing Authority (the "Issuer") in connection with its execution and delivery of the Debt Service Fund Forward Delivery Agreement, dated as of February 1, 2007 (the "Agreement"), by and among the Issuer, The Bank of New York Trust Company, N.A. (the "Trustee") and Wachovia Bank, National Association (the "Provider") and its execution and delivery of the Financing Documents. Capitalized terms used herein and not defined herein have the respective meanings given to them in the Agreement.

In connection with the rendering of this opinion, we have examined the Agreement, the Financing Documents and such other documents, records, certificates and instruments as we have deemed necessary in connection with the rendering of this opinion (such documents are collectively referred to herein as the "Documents"). In such examination we have assumed, without any independent investigation or inquiry on our part: (i) the genuineness of all signatures (other than those of the Issuer) on each of the Documents; (ii) the legal capacity of all natural persons who have signed the Documents; (iii) the authenticity of all Documents submitted to us as originals, the conformity to the original documents of all Documents submitted to us as certified, facsimile or photostatic copies or in electronic form and the authenticity of the originals of all such Documents; (iv) that each of the parties (other than the Issuer) to the Documents has been duly formed and organized and is validly existing and in good standing under the laws of the jurisdiction of its incorporation or establishment; (v) that each of the parties (other than the Issuer) to the Documents (A) has duly authorized, executed and delivered such Documents,

(B) has all requisite power and authority to enter into and perform its respective obligations under such Documents and (C) has obtained, secured or made all consents and approvals of, notice to, or registrations required with or by any governmental authorities, agencies or instrumentalities in connection with its execution, delivery and performance of, the Documents to which it is a party; (vi) the execution, delivery and performance by each of the parties (other than the Issuer) of such Documents which it is a party will not contravene any provision of such party's articles of incorporation, by-laws, articles of organization, operating agreement, certificate of formation, limited liability company agreement or other governing instrument; and (vii) that there are no other agreements or understandings among the parties to such Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties thereto that would, in any case, define, supplement, alter or qualify the terms of such Documents. As to all matters of fact we have relied in good faith on certificates and other statements of public officials and officers and other representatives of the Issuer, and we have made no inquiries to establish or verify these or any other facts material to this opinion.

In giving the opinions expressed below we do not purport to be experts in or generally familiar with or qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States of America and the laws of the State of California (the "State"). We express no opinion as to the validity or enforceability of any choice of law, choice of forum or waiver provision contained in the Agreement. We express no opinion as to the availability of equitable remedies to persons seeking to enforce the obligations of the Issuer under the Agreement.

Based upon the foregoing examination and review, we are of the opinion that:

(a) The Issuer has full legal right, power and authority to enter into the Agreement and the Financing Documents and to authorize and direct the Trustee, pursuant to the Agreement, to make purchases of the Qualified Securities in accordance with the terms therein.

(b) The Agreement and the Financing Documents to which it is a party have been duly authorized, executed and delivered by the Issuer.

(c) Assuming for purposes of the opinion expressed in this paragraph (c) that the Agreement were governed by and construed in accordance with the laws of the State, the Agreement is a legal, valid and binding obligation of the Issuer, enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(d) To our knowledge, the Issuer's execution and delivery of the Agreement and the performance of its obligations thereunder do not and will not conflict with or constitute or result in a default under, a breach or violation of, or the creation of any lien or encumbrance on any of its property under the Financing Documents or any other agreement, instrument, judgment, injunction or order applicable to it or any of its property.

(e) The Financing Documents to which the Issuer is a party are legal, valid and binding obligations of the Issuer, enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(f) The Issuer is not entitled to claim immunity on the grounds of sovereignty or other similar grounds with respect to itself or its revenues or assets (irrespective of their use or intended use) from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) or (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be made subject to in any suit, action or proceedings relating to this Agreement brought validly ex contractu in the courts of any jurisdiction and no such immunity (whether or not claimed) may be attributed to the Issuer or its revenues or assets.

(g) To our knowledge, all consents, authorizations and approvals requisite for the Issuer's execution, delivery and performance of this Agreement have been obtained and remain in full force and effect and all conditions thereof have been duly complied with, and no other action by, and no notice to or filing with, any governmental authority, regulatory body or any other entity is required for such execution, delivery or performance.

(h) The Eligible Securities to be delivered under the Agreement are permitted investments for amounts held in the Debt Service Fund under the Indenture and applicable law.

We are furnishing this opinion to you solely for your benefit and no other person is entitled to rely hereon. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purpose. This opinion is given as of the date hereof and we expressly disclaim any responsibility to update this opinion or advise you of any changes of law, facts or circumstances of any kind that may occur after the date hereof which might affect the opinion expressed herein.

Very truly yours,

EXHIBIT E

DELIVERY DATES

Delivery Date*	Bond Payment Date*	Deposit Amount	Delivered Maturity Amount
02/07/07	03/01/07	$10,391,964.17	$10,428,595.84
03/01/07	03/29/07	$10,428,595.84	$10,469,767.94
03/29/07	04/30/07	$10,469,767.94	$10,515,531.30
04/30/07	05/31/07	$10,515,531.30	$10,560,012.00
05/31/07	06/28/07	$10,560,012.00	$10,601,702.93
06/28/07	07/30/07	$10,601,702.93	$10,649,537.81
07/30/07	08/15/07	$10,649,537.81	$10,672,061.58
08/15/07	08/30/07	$5,246,422.83	$5,257,519.01
08/30/07	09/28/07	$5,257,519.01	$5,278,275.70
09/28/07	10/30/07	$5,278,275.70	$5,302,091.28
10/30/07	11/29/07	$5,302,091.28	$5,323,771.53
11/29/07	12/31/07	$5,323,771.53	$5,347,792.39
12/31/07	01/30/08	$5,347,792.39	$5,370,413.55
01/30/08	02/15/08	$5,370,413.55	$5,381,771.97
02/15/08	02/28/08	$214,496.97	$214,890.14
02/28/08	03/28/08	$1,514,010.37	$1,520,414.63
03/28/08	04/30/08	$2,540,663.63	$2,552,127.10
04/30/08	05/30/08	$3,097,432.60	$3,110,534.74
05/30/08	06/30/08	$3,638,249.74	$3,653,639.54
06/30/08	07/30/08	$4,308,006.14	$4,326,229.01
07/30/08	08/15/08	$5,276,116.01	$5,287,275.00
08/15/08	08/28/08	$120,000.00	$120,219.96
08/28/08	09/30/08	$2,709,105.77	$2,721,329.26
09/30/08	10/30/08	$5,338,795.66	$5,361,378.77
10/30/08	12/01/08	$7,472,238.77	$7,504,899.93
12/01/08	12/31/08	$8,813,633.13	$8,850,914.80
12/31/08	01/29/09	$10,539,602.80	$10,582,699.24
01/29/09	02/17/09	$11,782,371.34	$11,812,275.00
03/02/09	03/30/09	$1,301,566.46	$1,306,705.04
03/30/09	04/30/09	$2,291,773.04	$2,301,467.24
04/30/09	05/29/09	$2,846,772.74	$2,858,413.19
05/29/09	06/30/09	$3,386,128.19	$3,400,928.96
06/30/09	07/30/09	$4,055,295.56	$4,072,449.46

* If any Delivery Date or Bond Payment Date specified above is not a Business Day, such date will be the immediately succeeding Business Day; provided, however, that with respect to any date specified as a Bond Payment Date, the determination of whether such date is a Business Day shall be made without giving effect to clauses (c), (d), (e), (f) and (g) of the definition of Business Day.

07/30/09	08/17/09	$5,022,336.46	$5,034,375.00
08/28/09	09/30/09	$2,585,372.72	$2,597,037.92
09/30/09	10/29/09	$5,214,504.32	$5,235,826.43
10/29/09	12/01/09	$7,346,686.43	$7,379,834.68
12/01/09	12/31/09	$8,688,567.88	$8,725,320.52
12/31/09	01/28/10	$10,414,008.52	$10,455,123.03
01/28/10	02/16/10	$11,654,795.13	$11,684,375.00
03/02/10	03/30/10	$1,269,654.44	$1,274,667.04
03/30/10	04/29/10	$2,259,735.04	$2,268,975.10
04/29/10	05/28/10	$2,814,280.60	$2,825,788.19
05/28/10	06/30/10	$3,353,503.19	$3,368,634.20
06/30/10	07/29/10	$4,023,000.80	$4,039,450.85
07/29/10	08/16/10	$4,989,337.85	$5,001,297.29
08/16/10	08/30/10	$99,922.29	$100,119.54
08/30/10	09/30/10	$2,717,585.94	$2,729,081.33
09/30/10	10/28/10	$5,346,547.73	$5,367,655.90
10/28/10	12/01/10	$7,478,515.90	$7,513,313.43
12/01/10	12/30/10	$8,822,046.63	$8,858,119.98
12/30/10	01/28/11	$10,546,807.98	$10,588,446.78
01/28/11	02/15/11	$11,788,118.88	$11,816,375.00
03/02/11	03/30/11	$1,269,491.84	$1,274,503.79
03/30/11	04/28/11	$2,259,571.79	$2,268,492.58
04/28/11	05/31/11	$2,813,798.08	$2,826,890.68
05/31/11	06/30/11	$3,354,605.68	$3,368,795.66
06/30/11	07/28/11	$4,023,162.26	$4,039,045.70
07/28/11	08/15/11	$4,988,932.70	$5,000,891.17
08/15/11	08/30/11	$272,391.17	$272,967.28
08/30/11	09/29/11	$2,890,433.68	$2,902,252.66
09/29/11	10/28/11	$5,519,719.06	$5,542,289.19
10/28/11	11/30/11	$7,653,149.19	$7,687,680.20
11/30/11	12/30/11	$8,996,413.40	$9,034,468.23
12/30/11	01/30/12	$10,723,156.23	$10,768,515.18
01/30/12	02/15/12	$11,968,187.28	$11,993,500.00
03/01/12	03/29/12	$1,273,654.60	$1,278,682.99
03/29/12	04/30/12	$2,298,931.99	$2,308,980.62
04/30/12	05/31/12	$2,854,286.12	$2,866,359.75
05/31/12	06/28/12	$3,394,074.75	$3,407,474.56
06/28/12	07/30/12	$4,061,841.16	$4,080,168.19
07/30/12	08/15/12	$5,030,055.19	$5,040,693.76
08/15/12	08/30/12	$493,818.76	$494,863.19
08/30/12	09/28/12	$3,112,329.59	$3,124,617.07
09/28/12	10/30/12	$5,742,083.47	$5,767,991.75
10/30/12	11/29/12	$7,878,851.75	$7,911,068.37
11/29/12	12/31/12	$9,219,801.57	$9,261,401.31
12/31/12	01/30/13	$10,950,089.31	$10,996,408.19
01/30/13	02/15/13	$12,196,080.29	$12,221,875.00

02/28/13	03/28/13	$1,271,655.27	$1,277,034.37
03/28/13	04/30/13	$2,261,743.77	$2,271,948.76
04/30/13	05/31/13	$2,817,254.26	$2,829,171.25
05/31/13	06/28/13	$3,356,886.25	$3,370,139.24
06/28/13	07/30/13	$4,024,505.84	$4,042,664.41
07/30/13	08/15/13	$4,992,551.41	$5,003,110.66
08/15/13	08/29/13	$648,110.66	$649,390.03
08/29/13	09/30/13	$3,266,856.43	$3,281,135.86
09/30/13	10/30/13	$5,898,602.26	$5,923,553.35
10/30/13	11/29/13	$8,034,413.35	$8,067,266.07
11/29/13	12/31/13	$9,375,999.27	$9,418,303.78
12/31/13	01/30/14	$11,106,991.78	$11,153,974.36
01/30/14	02/18/14	$12,353,646.46	$12,385,000.01
02/28/14	03/28/14	$1,271,672.20	$1,277,051.37
03/28/14	04/30/14	$2,261,760.76	$2,271,965.82
04/30/14	05/30/14	$2,817,271.32	$2,829,188.38
05/30/14	06/30/14	$3,356,903.38	$3,371,103.08
06/30/14	07/30/14	$4,025,469.68	$4,042,497.42
07/30/14	08/15/14	$4,992,384.42	$5,002,943.31
08/15/14	08/28/14	$848,693.31	$850,248.96
08/28/14	09/30/14	$3,467,715.36	$3,483,361.69
09/30/14	10/30/14	$6,100,828.09	$6,126,634.59
10/30/14	12/01/14	$8,237,494.59	$8,273,500.68
12/01/14	12/31/14	$9,582,233.88	$9,622,766.73
12/31/14	01/29/15	$11,311,454.73	$11,357,707.27
01/29/15	02/17/15	$12,557,379.37	$12,589,250.00
03/02/15	03/30/15	$1,270,269.10	$1,275,284.12
03/30/15	04/30/15	$2,260,352.12	$2,269,913.41
04/30/15	05/29/15	$2,815,218.91	$2,826,730.34
05/29/15	06/30/15	$3,354,445.34	$3,369,107.62
06/30/15	07/30/15	$4,023,474.22	$4,040,493.52
07/30/15	08/17/15	$4,990,380.52	$5,002,342.46
08/17/15	08/28/15	$1,058,967.46	$1,060,609.92
08/28/15	09/30/15	$3,678,076.32	$3,694,671.80
09/30/15	10/29/15	$6,312,138.20	$6,337,948.53
10/29/15	12/01/15	$8,448,808.53	$8,486,929.55
12/01/15	12/31/15	$9,795,662.75	$9,837,098.40
12/31/15	01/28/16	$11,525,786.40	$11,571,290.20
01/28/16	02/16/16	$12,770,962.30	$12,803,375.00
03/01/16	03/31/16	$1,273,083.22	$1,278,468.36
03/31/16	04/28/16	$2,298,717.36	$2,307,792.70
04/28/16	05/31/16	$2,853,098.20	$2,866,373.67
05/31/16	06/30/16	$3,394,088.67	$3,408,445.67
06/30/16	07/28/16	$4,062,812.27	$4,078,852.25
07/28/16	08/15/16	$5,028,739.25	$5,040,793.14
08/15/16	08/30/16	$1,318,918.14	$1,321,707.65

08/30/16	09/29/16	$3,939,174.05	$3,955,281.33
09/29/16	10/28/16	$6,572,747.73	$6,599,623.70
10/28/16	11/30/16	$8,710,483.70	$8,749,785.40
11/30/16	12/30/16	$10,058,518.60	$10,101,066.13
12/30/16	01/30/17	$11,789,754.13	$11,839,624.79
01/30/17	02/15/17	$13,039,296.89	$13,066,875.00
03/02/17	03/30/17	$1,271,945.89	$1,276,967.53
03/30/17	04/28/17	$2,262,035.53	$2,270,966.05
04/28/17	05/31/17	$2,816,271.55	$2,829,375.66
05/31/17	06/29/17	$3,357,090.66	$3,370,817.80
06/29/17	07/28/17	$4,025,184.40	$4,041,643.38
07/28/17	08/15/17	$4,991,530.38	$5,003,495.08
08/15/17	08/30/17	$1,515,245.08	$1,518,449.82
08/30/17	09/28/17	$4,135,916.22	$4,152,244.82
09/28/17	10/30/17	$6,769,711.22	$6,800,256.16
10/30/17	11/30/17	$8,911,116.16	$8,948,810.18
11/30/17	12/29/17	$10,257,543.38	$10,299,486.47
12/29/17	01/30/18	$11,988,174.47	$12,040,574.78
01/30/18	02/15/18	$13,240,246.88	$13,268,250.00
03/01/18	03/29/18	$1,270,718.10	$1,275,734.90
03/29/18	04/30/18	$2,260,802.90	$2,270,684.87
04/30/18	05/31/18	$2,815,990.37	$2,827,902.01
05/31/18	06/28/18	$3,355,617.01	$3,368,864.99
06/28/18	07/30/18	$4,023,231.59	$4,041,384.41
07/30/18	08/15/18	$4,991,271.41	$5,001,827.95
08/15/18	08/30/18	$1,758,077.95	$1,761,796.28
08/30/18	09/28/18	$4,379,262.68	$4,396,552.01
09/28/18	10/30/18	$7,014,018.41	$7,045,665.66
10/30/18	11/29/18	$9,156,525.66	$9,193,966.69
11/29/18	12/31/18	$10,502,699.89	$10,550,088.07
12/31/18	01/30/19	$12,238,776.07	$12,290,546.09
01/30/19	02/15/19	$13,490,218.19	$13,518,750.00
02/28/19	03/28/19	$1,269,620.27	$1,274,990.76
03/28/19	04/30/19	$2,259,700.73	$2,269,896.50
04/30/19	05/31/19	$2,815,202.00	$2,827,110.30
05/31/19	06/28/19	$3,354,825.30	$3,368,070.15
06/28/19	07/30/19	$4,022,436.75	$4,040,585.98
07/30/19	08/15/19	$4,990,472.98	$5,001,027.83
08/15/19	08/29/19	$2,014,152.83	$2,018,128.77
08/29/19	09/30/19	$4,635,595.17	$4,655,857.36
09/30/19	10/30/19	$7,273,323.76	$7,304,089.92
10/30/19	11/29/19	$9,414,949.92	$9,453,447.65
11/29/19	12/31/19	$10,762,180.85	$10,810,739.81
12/31/19	01/30/20	$12,499,427.81	$12,552,300.39
01/30/20	02/18/20	$13,751,972.49	$13,786,875.00
02/28/20	03/30/20	$1,273,125.89	$1,278,870.23

03/30/20	04/30/20	$2,299,119.23	$2,308,844.50
04/30/20	05/29/20	$2,854,150.00	$2,865,820.62
05/29/20	06/30/20	$3,393,535.62	$3,408,368.76
06/30/20	07/30/20	$4,062,735.36	$4,079,920.73
07/30/20	08/17/20	$5,029,807.73	$5,041,864.18
08/17/20	08/28/20	$2,324,989.18	$2,328,595.24
08/28/20	09/30/20	$4,946,061.64	$4,968,378.27
09/30/20	10/29/20	$7,585,844.67	$7,616,863.19
10/29/20	12/01/20	$9,727,723.19	$9,771,614.68
12/01/20	12/31/20	$11,080,347.88	$11,127,217.75
12/31/20	01/28/21	$12,815,905.75	$12,866,502.95
01/28/21	02/16/21	$14,066,175.05	$14,101,875.00
03/02/21	03/30/21	$1,273,238.45	$1,278,265.20
03/30/21	04/29/21	$2,263,333.20	$2,272,587.97
04/29/21	05/28/21	$2,817,893.47	$2,829,415.84
05/28/21	06/30/21	$3,357,130.84	$3,372,278.21
06/30/21	07/29/21	$4,026,644.81	$4,043,109.76
07/29/21	08/16/21	$4,992,996.76	$5,004,964.97
08/16/21	08/30/21	$2,572,714.97	$2,577,793.51
08/30/21	09/30/21	$5,195,259.91	$5,217,235.86
09/30/21	10/28/21	$7,834,702.26	$7,865,633.66
10/28/21	12/01/21	$9,976,493.66	$10,022,914.29
12/01/21	12/30/21	$11,331,647.48	$11,377,982.59
12/30/21	01/28/22	$13,066,670.59	$13,118,257.81
01/28/22	02/15/22	$14,317,929.92	$14,352,250.00
03/02/22	03/30/22	$1,269,440.39	$1,274,452.14
03/30/22	04/28/22	$2,259,520.14	$2,268,440.73
04/28/22	05/31/22	$2,813,746.23	$2,826,838.59
05/31/22	06/30/22	$3,354,553.59	$3,368,743.35
06/30/22	07/28/22	$4,023,109.95	$4,038,993.19
07/28/22	08/15/22	$4,988,880.19	$5,000,838.54
08/15/22	08/30/22	$2,866,588.54	$2,872,651.37
08/30/22	09/29/22	$5,490,117.77	$5,512,566.86
09/29/22	10/28/22	$8,130,033.26	$8,163,276.97
10/28/22	11/30/22	$10,274,136.97	$10,320,493.88
11/30/22	12/30/22	$11,629,227.08	$11,678,418.71
12/30/22	01/30/23	$13,367,106.71	$13,423,649.57
01/30/23	02/15/23	$14,623,321.67	$14,654,250.00
03/02/23	03/30/23	$1,270,263.48	$1,275,278.48
03/30/23	04/28/23	$2,260,346.48	$2,269,270.33
04/28/23	05/31/23	$2,814,575.83	$2,827,672.05
05/31/23	06/29/23	$3,355,387.05	$3,369,107.23
06/29/23	07/28/23	$4,023,473.83	$4,039,925.81
07/28/23	08/15/23	$4,989,812.81	$5,001,773.39
08/15/23	08/30/23	$3,180,523.39	$3,187,250.20
08/30/23	09/28/23	$5,804,716.60	$5,827,633.62

09/28/23	10/30/23	$8,445,100.02	$8,483,204.31
10/30/23	11/30/23	$10,594,064.31	$10,638,877.20
11/30/23	12/29/23	$11,947,610.40	$11,996,464.18
12/29/23	01/30/24	$13,685,152.18	$13,744,969.98
01/30/24	02/15/24	$14,944,642.08	$14,976,250.00
02/29/24	03/28/24	$1,269,611.69	$1,274,803.13
03/28/24	04/30/24	$2,294,873.12	$2,305,227.59
04/30/24	05/31/24	$2,850,533.09	$2,862,590.84
05/31/24	06/28/24	$3,390,305.84	$3,403,690.77
06/28/24	07/30/24	$4,058,057.37	$4,076,367.32
07/30/24	08/15/24	$5,026,254.32	$5,036,884.85
08/15/24	08/29/24	$3,544,509.85	$3,551,506.71
08/29/24	09/30/24	$6,168,973.11	$6,195,937.69
09/30/24	10/30/24	$8,813,404.09	$8,850,684.79
10/30/24	11/29/24	$10,961,544.79	$11,006,366.55
11/29/24	12/31/24	$12,315,099.75	$12,370,665.48
12/31/24	01/30/25	$14,059,353.48	$14,118,824.55
01/30/25	02/18/25	$15,318,496.66	$15,357,375.00
02/28/25	03/28/25	$1,271,213.37	$1,276,590.60
03/28/25	04/30/25	$2,261,300.12	$2,271,503.11
04/30/25	05/30/25	$2,816,808.61	$2,828,723.71
05/30/25	06/30/25	$3,356,438.71	$3,370,636.45
06/30/25	07/30/25	$4,025,003.05	$4,042,028.81
07/30/25	08/15/25	$4,991,915.81	$5,002,473.71
08/15/25	08/28/25	$3,856,723.71	$3,863,793.08
08/28/25	09/30/25	$6,481,259.48	$6,510,502.92
09/30/25	10/30/25	$9,127,969.32	$9,166,580.63
10/30/25	12/01/25	$11,277,440.63	$11,326,734.32
12/01/25	12/31/25	$12,635,467.52	$12,688,915.55
12/31/25	01/29/26	$14,377,603.55	$14,436,393.57
01/29/26	02/17/26	$15,636,065.67	$15,675,750.00
03/02/26	03/30/26	$1,272,328.23	$1,277,351.38
03/30/26	04/30/26	$2,262,419.38	$2,271,989.41
04/30/26	05/29/26	$2,817,294.91	$2,828,814.83
05/29/26	06/30/26	$3,356,529.83	$3,371,201.22
06/30/26	07/30/26	$4,025,567.82	$4,042,595.97
07/30/26	08/17/26	$4,992,482.97	$5,004,449.95
08/17/26	08/28/26	$4,221,949.95	$4,228,498.19
08/28/26	09/30/26	$6,845,964.59	$6,876,853.58
09/30/26	10/29/26	$9,494,319.98	$9,533,142.25
10/29/26	12/01/26	$11,644,002.25	$11,696,539.99
12/01/26	12/31/26	$13,005,273.19	$13,060,285.50
12/31/26	01/28/27	$14,748,973.50	$14,807,202.45
01/28/27	02/16/27	$16,006,874.55	$16,047,500.00
03/02/27	03/31/27	$1,273,467.92	$1,278,675.13
03/31/27	04/29/27	$2,263,743.13	$2,272,999.58

04/29/27	**05/28/27**	**$2,818,305.08**	**$2,829,829.13**
05/28/27	**06/30/27**	**$3,357,544.13**	**$3,372,693.37**
06/30/27	**07/29/27**	**$4,027,059.97**	**$4,043,526.62**
07/29/27	**08/16/27**	**$4,993,413.62**	**$5,005,382.83**
08/16/27	**08/30/27**	**$4,604,507.83**	**$4,613,597.13**
08/30/27	**09/30/27**	**$7,231,063.53**	**$7,261,650.93**
09/30/27	**10/28/27**	**$9,879,117.33**	**$9,918,120.09**
10/28/27	**12/01/27**	**$12,028,980.09**	**$12,084,950.93**
12/01/27	**12/30/27**	**$13,393,684.13**	**$13,448,450.90**
12/30/27	**01/28/28**	**$15,137,138.90**	**$15,196,900.32**
01/28/28	**02/15/28**	**$16,396,572.42**	**$16,435,875.00**

EXHIBIT F

COLLATERAL

COLLATERAL	REQUIRED PERCENTAGE
1. Cash;	100%
2. Securities issued or guaranteed by the United States Government or the Government National Mortgage Association ("GNMA"), including U.S. Treasury obligations, and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government; or	104%
3. Senior bonds, notes, debentures, obligations or other evidences of indebtedness issued and/or guaranteed by the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHMLC"), including, but not limited to, mortgage participation certificates, mortgage passthrough certificates and other mortgage–backed securities.	105%

Collateralized mortgage obligations are not permitted as Collateral.

EXECUTION COPY

AGREEMENT FOR PURCHASE AND SALE OF NATURAL GAS

BETWEEN

MERRILL LYNCH COMMODITIES, INC.

as Seller

and

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

as Purchaser

Dated as of January 24, 2007

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EXHIBITS

Exhibit A – Form of Guarantee
Exhibit B – Daily Contract Quantity
Exhibit C – Schedule of Termination Amounts

AGREEMENT FOR PURCHASE AND SALE OF NATURAL GAS

THIS AGREEMENT ("***Agreement***"), dated as of January 24, 2007, is entered into between **MERRILL LYNCH COMMODITIES, INC.** ("***Seller***") and the **ROSEVILLE NATURAL GAS FINANCING AUTHORITY**, a joint exercise of powers agency and a public entity of the State of California ("***Purchaser***"). Seller and Purchaser may be referred to individually in this Agreement from time to time as "a party" or collectively as "the parties."

W I T N E S S E T H:

WHEREAS, Purchaser is created and existing under the California Joint Exercise of Powers Act, as amended, and that certain Joint Exercise of Powers Agreement, dated as of December 1, 2006, between the City of Roseville, a municipal corporation and chartered city of the State of California (the "Municipality") and the Redevelopment Agency of the City of Roseville; and

WHEREAS, Purchaser was established for the purpose, *inter alia*, of acquiring, financing, and supplying natural Gas for Municipality; and

WHEREAS, Purchaser has planned and developed a gas supply project under which it will finance the acquisition of Gas for resale to Municipality so as to bring the benefits of secure, reliable and economical Gas supplies to Municipality; and

WHEREAS, Purchaser and Municipality have entered into that Natural Gas Supply Agreement, dated the date hereof (the "Supply Agreement") pursuant to which Purchaser has agreed to sell the Gas delivered hereunder to Municipality; and

WHEREAS, Seller wishes to sell and deliver Gas to Purchaser and Purchaser wishes to buy and receive Gas from Seller on the terms and conditions set forth in this Agreement;

THEREFORE, in consideration of the mutual agreements and covenants herein set forth, Seller hereby agrees to sell and deliver to Purchaser, and Purchaser hereby agrees to buy and receive from Seller, Gas pursuant to the terms of this Agreement.

1. DEFINITIONS

1.1. Definitions. The following terms appearing in this Agreement shall have the following meanings:

1.1.1. "***Administrative Fee***" means $0.05 per MMBtu.

1.1.2. "***Affiliate***" means, with respect to any person, any other person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person. For purposes of the foregoing definition, "control" shall mean, with respect to entities with outstanding capital stock or other equity interests having ordinary voting power, the direct or indirect ownership of more than fifty percent (50%) of the outstanding capital stock or other equity interests having ordinary voting power.

1.1.3. "***Alternate Delivery Point***" means each delivery point for the delivery and receipt of Gas hereunder agreed to by the parties pursuant to Section 11 other than the Primary Delivery Point.

1.1.4. "***Anticipatory Tax Event Period***" means each period of time: (a) commencing three Business Days after the delivery of a Qualifying Use Report indicating that the Non-Qualifying Prepaid Gas is equal to 50% or more of the Non-Qualifying Use Limit and (b) terminating on the earliest to occur of: (i) the termination of the Supply Agreement, or (ii) the occurrence of a Tax Event, or (iii) the delivery of a subsequent Qualifying Use Report indicating the Non-Qualifying Prepaid Gas is equal to 40% or less of the Non-Qualifying Use Limit and the conclusion of remarketing pursuant to Section 8.2 for the period during which a Retention Notice has been provided.

1.1.5. "***Anticipatory Tax Event Remarket Gas***" means, for any period of time, the amount of Prepaid Gas to be delivered during such period less the amount of such Prepaid Gas specified in a Retention Notice.

1.1.6. "***Bankruptcy Event***" shall be deemed to occur if the party in question (i) files a petition for relief under Title 11 of the United States Code, as amended, and any successor statute or statutes having substantially the same function or any other insolvency law or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fails to file an answer or other pleading denying the material allegations of any such proceeding filed against it; (ii) takes any corporate action to authorize or effect any of the foregoing actions; (iii) generally fails to pay, or admits in writing its inability to pay, its debts as such debts become due; (iv) shall apply for, seek or consent to, or acquiesce in, the appointment of a custodian, receiver, trustee, examiner, liquidator or similar official for it or for any material portion of its assets; (v) benefits from or is subject to the entry of an order for relief under any bankruptcy or insolvency law; (vi) makes an assignment for the benefit of creditors; (vii) fails, within thirty (30) Days after the commencement of any proceeding against it seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, to have such proceeding dismissed, or to have all orders or proceedings thereunder affecting the operations or the business of the party in question stayed; or (viii) fails, within thirty (30) Days after the appointment, without the consent or acquiescence of the party in question, of any custodian, receiver, trustee, examiner, liquidator or similar official for it or for any material portion of its assets, to have such appointment vacated.

1.1.7. "***Bonds***" means Purchaser's $209,350,000 Gas Revenue Bonds, Series 2007, issued pursuant to the Indenture.

1.1.8. "***British Thermal Unit***" or "***Btu***" means the amount of energy required to raise the temperature of one (1) pound of water one degree Fahrenheit (1 degree F) at sixty degrees Fahrenheit (60 degrees F) at standard atmospheric and gravitational conditions.

1.1.9. "***Business Day***" means any Day excluding: (a) Saturday, Sunday and any Day on which banks located in the State of California or the State of New York are

required or authorized by law or other governmental action to close and (b) any Day on which the New York Mercantile Exchange or the Trustee is closed.

1.1.10. "***Claims***" means any and all claims, demands, actions, causes of action, suits, controversies, losses, judgments, damages, liabilities, costs, expenses, obligations, and deficiencies (including, without limitation, costs of investigation and reasonable attorneys' fees and other costs and expenses incident to the defense of any claim that results in litigation, or the settlement of any claim, or the enforcement of the provisions herein).

1.1.11. "***Closing***" shall have the meaning ascribed by Section 22.1.

1.1.12. "***Contract Price***" means, with respect to a Delivery Month, an amount per MMBtu of Gas equal to the Index Price for such Delivery Month less [$0.68] or such higher amount per MMBtu of Gas as may be determined pursuant to Section 7.13 of the Indenture.

1.1.13. "***Contract Year***" means each period from January 1 of a calendar year to and including December 31 of such calendar year, commencing January 1, 2008, during the Term of this Agreement.

1.1.14. "***Cover Standard***" means the performing party shall use commercially reasonable efforts to purchase or sell (as applicable) Gas quantities at a price reasonable for the delivery or production area, as applicable, consistent with: (1) the amount of notice provided by the nonperforming party; (2) the immediacy of Purchaser's Gas consumption needs or Seller's Gas sales requirements, as applicable; (3) the quantities involved; and (4) the anticipated length of failure by the nonperforming party.

1.1.15. "***Customer Insurance Policy***" means the financial guaranty insurance policy issued by Financial Security Assurance Inc. with respect to the payment by Municipality for Gas delivered under the Supply Agreement.

1.1.16. "***Day***" means a period of twenty-four consecutive hours, beginning at midnight on a calendar day and ending immediately before midnight on the next succeeding calendar day.

1.1.17. "***Daily Anticipatory Tax Event Remarket Gas***" means Anticipatory Tax Event Remarket Gas other than Monthly Anticipatory Tax Event Remarket Gas and includes both Anticipatory Tax Event Remarket Gas identified as Daily Anticipatory Tax Event Remarket Gas in a Retention Notice received by Seller by the Daily Notice Time and all Prepaid Gas to be delivered during an Anticipatory Tax Event Period as to which Seller has received no Retention Notice.

1.1.18. "***Daily Contract Quantity***" means the quantity of Gas in MMBtu's required to be delivered by Seller and received by Purchaser on each Gas Day of each Delivery Month during the Term, all as set forth in Exhibit B.

1.1.19. "***Daily Notice Time***" means, with respect to Gas to be remarketed by Seller pursuant to Section 8.1.2, Section 8.2 or Section 8.3, (a) the earlier of (i) 7:00 a.m.

Central Time on the Day which is one (1) Day prior to the Day on which such Gas is to be remarketed or (ii) four (4) hours prior to nominations leaving control of the nominating party for the first timely nomination cycle for the Transporter at the Delivery Point; or (b) such other time as shall be agreed to by the parties.

1.1.20. "***Daily Tax Event Remarket Gas***" means Tax Event Remarket Gas other than Monthly Tax Event Remarket Gas and includes both Tax Event Remarket Gas identified as Daily Tax Event Remarket Gas in a Retention Notice received by Seller by the Daily Notice Time and all Prepaid Gas to be delivered after a Tax Event as to which Seller has received no Retention Notice.

1.1.21. "***Delivery Month***" means a Month in which Gas deliveries and receipts are to be made hereunder.

1.1.22. "***Delivery Period***" means the period from and including the Delivery Start Date to and including December 31, 2027.

1.1.23. "***Delivery Point(s)***" means the Primary Delivery Point and each Alternate Delivery Point.

1.1.24. "***Delivery Start Date***" means January 1, 2008.

1.1.25. "***Designated Maturity***" means the twenty-fifth (25th) day of each month during the period commencing on the Early Termination Date and ending on January 25, 2028 on which Savings would be deemed to have been realized by Purchaser for purposes of the definition of "Unearned Amount" below.

1.1.26. "***Early Termination Date***" shall have the meaning ascribed in Section 26.1.

1.1.27. "***Excess Gas Event***" shall have the meaning ascribed in Section 25.2.5.

1.1.28. "***F.E.R.C.***" means the Federal Energy Regulatory Commission and any successor thereto.

1.1.29. "***Firm***" means Seller and Purchaser agree to unconditionally make and accept deliveries of the Gas sold hereunder on a non-interruptible basis, subject only to applicable Force Majeure.

1.1.30. "***Force Majeure***" shall have the meaning ascribed in Section 10.

1.1.31. ***"Funding Agreement"*** means that certain Funding and Assignment Agreement between Purchaser and Seller, dated as of February 1, 2007, as the same may be amended and supplemented.

1.1.32. "***Gas***" means all natural gas, casing head gas and associated gaseous (but not liquid) hydrocarbons.

1.1.33. "***Gas Day***" means a period of twenty-four (24) consecutive hours, beginning at 9:00 a.m. on a calendar day and ending immediately before 9:00 a.m. on the next succeeding calendar day. If, through standardizing business practices in the industry, or for any other reason, either F.E.R.C. or one or more Transporters change the definition of a day as applicable to the delivery of Gas hereunder, such change shall apply to the definition of Gas Day in this Agreement; provided that in the event a Transporter changes the definition of a day, the definition of Gas Day herein shall be changed only with respect to Gas delivered through such Transporter.

1.1.34. "***Gas Payments***" means all payments required to be made by Seller pursuant to Section 5.1, Section 6.1, Section 10.7, Section 27.2 and Section 27.3.

1.1.35. "***Guarantor***" means Merrill Lynch & Co., or any successor thereto.

1.1.36. "***Guarantee***" means the Guarantee issued by the Guarantor to Purchaser securing Seller's payment obligations hereunder, which shall be in substantially the form of Exhibit A.

1.1.37. "***Imbalance***" shall have the meaning ascribed by Section 15.

1.1.38. "***Imbalance Charges***" means, with respect to any Imbalance, any fees, penalties, costs or charges (in cash or in kind) assessed by a Transporter for failure to satisfy the Transporter's balance and/or nomination requirements.

1.1.39. "***Indemnity Group***" means, for each party, that party's Affiliates, officers, directors, employees, agents, and representatives.

1.1.40. "***Indenture***" means that certain Trust Indenture between Purchaser and Trustee, dated as of February 1, 2007, pursuant to which Purchaser issued the Bonds to finance the purchase of Gas from Seller under this Agreement.

1.1.41. "***Index Price***" means, for each Delivery Month and each Gas Day within a Delivery Month, the first of month index for such Delivery Month stated in U.S. Dollars, published under the heading "Spot Gas Prices; California: PG&E Citygate: avg." as reported by Natural Gas Intelligence in the relevant issue of NGI's Bidweek Survey.

1.1.42. "***ISDA***" means the International Swaps and Derivatives Association, Inc.

1.1.43. "***LIBOR Rate***" means the rate of interest for deposits in U.S. Dollars for the period of the pertinent Designated Maturity, commencing on the Early Termination Date and in a Representative Amount, which appears on the display page designated "Page 3750" by Telerate Data Service, or such other page as may replace such page on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying comparable interest rate quotes ("Telerate Page 3750") as of 11:00 a.m., London time, on the Day that is two (2) London Banking Days preceding the Early Termination Date. If such rate does not appear on the Telerate Page 3750,

the rate will be determined on the basis of the rates at which deposits in U.S. Dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on the Day that is two (2) London Banking Days preceding the Early Termination Date to prime banks in the London interbank market for a period of the pertinent Designated Maturity, commencing on the Early Termination Date and in a Representative Amount. Purchaser will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the rate will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate will be the arithmetic mean of the rates quoted by major banks in New York City, selected by Purchaser, at approximately 11:00 a.m., New York City time, on the Early Termination Date for loans in U.S. Dollars to leading European banks for a period of the pertinent Designated Maturity, commencing on the Early Termination Date and in a Representative Amount.

1.1.44. "***London Banking Day***" means any day on which commercial banks in London, England are open for business (including dealings in foreign exchange and foreign currency deposits) in that city.

1.1.45. "***Market Disruption Event***" means, with respect to an index, any of the following events: (a) the failure of the index to announce or publish information necessary for determining the applicable index price; (b) the failure of trading to commence or the permanent discontinuation or material suspension of trading in the relevant options contract or commodity on the exchange or market acting as the index; (c) the temporary or permanent discontinuance or unavailability of the index; (d) the temporary or permanent closing of any exchange acting as the index; or (e) a material change in the formula for or the method of determining the applicable index price.

1.1.46. "***MMBtu***" means one million (1,000,000) Btus.

1.1.47. "***Month***" or "***Monthly***" means a period beginning at 9:00 a.m. on the first Day of a calendar month and ending immediately preceding 9:00 a.m. on the first Day of the next succeeding calendar month. If, through standardizing business practices in the industry, or for any other reason, either F.E.R.C. or Transporter(s) change the definition of month, such change shall apply to the definition of month in this Agreement; provided that in the event a Transporter changes the definition of a month as applicable to the delivery of Gas hereunder, the definition of Month herein shall be changed only with respect to Gas delivered through such Transporter.

1.1.48. "***Monthly Anticipatory Tax Event Remarket Gas***" means Anticipatory Tax Event Remarket Gas identified as Monthly Anticipatory Tax Event Remarket Gas in a Retention Notice received by Seller by the Monthly Notice Time.

1.1.49. "***Monthly Contract Quantity***" means the quantity of Gas in MMBtus calculated as the product of the Daily Contract Quantity for a Delivery Month as set forth in Exhibit B and the number of Days in that Delivery Month.

1.1.50. "***Monthly Notice Time***" means: (a) the day which is three (3) days prior to the last day of exchange trading for Henry Hub Natural Gas Futures Contracts on the

New York Mercantile Exchange for deliveries in the Month in which the Gas is to remarketed; or (b) in the event there is a change in such last day of exchange trading or there is a suspension or termination of trading for Henry Hub Natural Gas Futures Contracts on the New York Mercantile Exchange, an appropriate substitute date for such last day of exchange trading agreed to in writing by the parties; or (c) in the event there is a change in such last day of exchange trading or there is a suspension or termination of trading for Henry Hub Natural Gas Futures Contracts on the New York Mercantile Exchange, and an appropriate substitute date for such last day of exchange trading is not agreed to in writing by the parties, the date which is six (6) Business Days prior to the first day of the Month in which the Gas is to be remarketed.

1.1.51. "***Monthly Tax Event Remarket Gas***" means Tax Event Remarket Gas identified as Monthly Tax Event Remarket Gas in a Retention Notice received by Seller by the Monthly Notice Time.

1.1.52. "***Municipality***" means the City of Roseville, a municipal corporation and chartered city of the State of California.

1.1.53. "***New Tax***" means any Tax which is enacted and becomes effective after the execution of this Agreement, or any increase in the rate of an existing Tax which increase is enacted and becomes effective after the execution of this Agreement.

1.1.54. "***Non-Qualifying Prepaid Gas***" means, as of any date: (a) the total volume of Prepaid Gas delivered or deemed delivered hereunder by Seller which has been applied or remarketed for a Non-Qualifying Use as of such date less (b) the sum of (i) the volume of such Prepaid Gas which has been remarketed for a Non-Qualifying Use if the Proceeds Subject to Remediation of such remarketing have been applied to a Remediation Use plus (ii) the volume of such Prepaid Gas which has been remarketed for a Non-Qualifying Use if the Proceeds Subject to Remediation of such remarketing have been applied to the redemption of Bonds.

1.1.55. "***Non-Qualifying Use*** " means a use of Prepaid Gas delivered or deemed delivered by Seller hereunder for other than a Qualifying Use.

1.1.56. "***Non-Qualifying Use Limit***" means 3,365,058.51 MMBtus.

1.1.57. "***Optional Remarket Gas***" shall have the meaning ascribed in Section 8.1.

1.1.58. "***Payment Date***" shall have the meaning ascribed in Section 18.2.

1.1.59. "***Prepaid Gas***" means the aggregate amount of Gas to be delivered by Seller and received by Buyer hereunder from January 1, 2008 to and including December 31, 2027.

1.1.60. "***Prepayment***" shall have the meaning ascribed in Section 4.

1.1.61. "***Primary Delivery Point***" means Pacific Gas and Electric Company Citygate.

1.1.62. "***Prime Rate***" means, as of any time, the then current interest rate published in The Wall Street Journal as the prime rate of interest, as it may be adjusted from time to time.

1.1.63. "***Proceeds Subject to Remediation***" means the remarketing price of the remarketing of Gas delivered or deemed delivered by Seller hereunder (whether the remarketing is by Municipality or by Seller) for other than a Qualifying Use, together with all interest and other investment income on such remarketing price which are not to be rebated to the United States of America.

1.1.64. "***Purchaser Receipt Failure***" means Purchaser's failure on any Gas Day, for any reason other than Force Majeure, to meet its obligation to take delivery at the applicable Delivery Point of the quantity of Gas required to be received at such Delivery Point on such Gas Day from Seller.

1.1.65. "***Purchaser Billing Statement***" shall have the meaning ascribed in Section 18.1.1.

1.1.66. "***Purchaser Swap Agreement***" means, the natural gas price swap transaction between Purchaser and the Swap Counterparty, under an ISDA Master Agreement with the Swap Counterparty, as amended, evidenced by a confirmation dated January 24, 2007, on a notional quantity equal to the Monthly Contract Quantity for each Delivery Month and each replacement therefor entered into pursuant to Section 33.20.

1.1.67. "***Qualifying Use***" shall have the meaning ascribed in Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2); provided that the use does not give rise to "private business use" as defined in Treasury Regulation Section 1.141-3; and provided that a Qualifying Use Certificate is provided by the buyer of Gas delivered hereunder or Gas purchased with funds in the Remediation Fund upon the sale of such Gas for a Qualifying Use.

1.1.68. "***Qualifying Use Certificate***" means a certificate signed by the buyer of Gas delivered hereunder and remarketed by Seller or Municipality or Gas purchased with funds in the Remediation Fund certifying that such Gas shall be applied to the Qualifying Use identified in such certificate.

1.1.69. "***Qualifying Use Report***" means a report prepared pursuant to Section 9.2.

1.1.70. "***Receipt Date***" means, with respect to the proceeds of the remarketing of Gas delivered hereunder, whether remarketed by Seller or Municipality, the date of receipt by Municipality of such proceeds.

1.1.71. "***Redemption Fund***" shall have the meaning ascribed in the Indenture.

1.1.72. "***Reference Banks***" means four major banks in the London interbank market.

1.1.73. "***Remarketing Notice***" means a written notice to remarket Optional Remarket Gas delivered by Purchaser to Seller pursuant to Section 8.1 specifying (a) the quantity of Prepaid Gas to be remarketed and (b) the term of such remarketing.

1.1.74. "***Remarketing Price***" means the price at which Gas is remarketed by Seller pursuant to Section 8 or Section 6.

1.1.75. "***Remediation Fund***" means that certain fund so designated and held by Municipality which is established pursuant to the Supply Agreement.

1.1.76. "***Remediation Use***" means, with respect to Proceeds Subject to Remediation, any of the following: (a) the purchase of Gas with such Proceeds Subject to Remediation and the sale of such Gas for a Qualifying Use (as evidenced by a Qualifying Use Certificate); (b) the application of Proceeds Subject to Remediation by Municipality to the purchase of Gas which Gas is used by Municipality for a Qualifying Use or; (c) the application of Proceeds Subject to Remediation to the purchase of electricity in compliance with Treasury Regulation Section 1.148-1(e)(2)(iii)B)(2).

1.1.77. "***Replacement Gas***" means any Gas acquired by Purchaser to replace Gas as to which there has been a Seller Delivery Default, including any such Gas for which a cash out price is charged by any Transporter, and as to which Seller has made a payment as provided in Section 5.1.1.

1.1.78. "***Representative Amount***" means an amount that is representative for a single transaction in the relevant market at the relevant time.

1.1.79. "***Responsible Party***" shall have the meaning ascribed in Section 15.

1.1.80. "***Retention Notice***" means, with respect to any portion of the Prepaid Gas, a written notice delivered by Municipality to Seller pursuant to Section 8.2 or Section 8.3, as applicable: (a) specifying (i) the quantity of such Prepaid Gas that is to be used by Municipality for a Qualifying Use; (ii) the time period during which such Prepaid Gas is to be used by Municipality for a Qualifying Use; and (iii) the quantity of Prepaid Gas that is Daily Anticipatory Tax Event Remarket Gas, Monthly Anticipatory Tax Event Remarket Gas, Daily Tax Event Remarket Gas, and Monthly Tax Event Remarket Gas as a result of such notice; and (b) instructing Seller not to remarket, pursuant to Section 8.2 or Section 8.3 as applicable, the Prepaid Gas identified in such notice as to be used by Municipality for a Qualifying Use.

1.1.81. "***Savings***" means the product of (i) $0.68 per MMBtu times (ii) the Daily Contract Quantity to have been delivered hereunder from the Early Termination Date to and including December 31, 2027.

1.1.82. "***Seller Delivery Default***" means Seller's failure on any Gas Day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of Gas required to be delivered to such Delivery Point on such Gas Day pursuant to this Agreement.

1.1.83. "***Seller Billing Statement***" shall have the meaning ascribed in Section 18.1.2.

1.1.84. "***Seller Swap Agreement***" means, the natural gas price swap transaction between Seller and the Swap Counterparty under an ISDA Master Agreement, as amended, evidenced by a confirmation dated January 24, 2007, on a notional quantity equal to the Monthly Contract Quantity for each Delivery Month and each replacement therefor entered into pursuant to Section 33.20.

1.1.85. "***Spot Price***" means, with respect to any Gas Day, the price published as the Spot Price Index for the relevant Gas Day; provided, if there is no single price published as the Spot Price Index for a relevant location for such Gas Day, but there is published a range of prices, then the Spot Price shall be the average of the high and low prices. If no price or range of prices is published for such Gas Day, then the Spot Price shall be the average of the following: (a) the price (determined as stated above) for the first Gas Day for which a price or range of prices is published that next precedes the relevant Gas Day; and (b) the price (determined as stated above) for the first Gas Day for which a price or range of prices is published that next follows the relevant Gas Day.

1.1.86. "***Spot Price Index***" means, with respect to Gas to be delivered hereunder on any Gas Day, the "Daily Midpoint" price set forth in Gas Daily (published by Platts), or any successor publication, in the column "Daily Price Survey" under the listing applicable to the geographic location closest in proximity to the Delivery Point(s) for such Gas for the relevant Gas Day.

1.1.87. "***Supply Agreement***" means that certain Natural Gas Supply Agreement, between Purchaser and Municipality, dated the date of this Agreement, as the same may be amended and supplemented.

1.1.88. "***Swap Counterparty***" means JPMorgan Chase Bank, National Association and any other person that becomes a counterparty to Purchaser and Seller under a Purchaser Swap Agreement and a Seller Swap Agreement, respectively, pursuant to Section 33.20.

1.1.89. "***Tax Counsel***" means an attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds, and the exclusion from gross income of interest on municipal bonds for federal income tax purposes, selected by Purchaser.

1.1.90. "***Tax-Exempt Status of the Bonds***" shall mean that the status of the Bonds is such that interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, with the exception that, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings.

1.1.91. "***Taxes***" means any and all ad valorem, property, severance, pipeline, utility, sales, use, environmental, and other taxes, governmental charges and fees

imposed by federal, state or local government entities on or in connection with the severance, processing, transportation, sale and purchase of Gas, but shall exclude all taxes based on net income, net worth and all franchise, license and similar taxes based on income or otherwise required for the maintenance of corporate existence.

1.1.92. "***Tax Event***" means the delivery by Seller of a Qualifying Use Report indicating that the Non-Qualifying Prepaid Gas is equal to 90% or more of the Non-Qualifying Use Limit.

1.1.93. "***Tax Event Remarket Gas***" means, for any period of time, the amount of the Prepaid Gas to be delivered during such period less the amount of such Prepaid Gas specified in a Retention Notice.

1.1.94. "***Term***" shall have the meaning ascribed in Section 2.

1.1.95. "***Termination Amount***" means, as of any Early Termination Date, the amount set forth in Exhibit C for the month in which the Early Termination Date occurs.

1.1.96. ***"Termination Remarket Gas***" means that portion of the Prepaid Gas to be delivered after the termination of the Supply Agreement.

1.1.97. ***"Third Party"*** means any person other than Purchaser, any Affiliate of Purchaser, Seller or any Affiliate of Seller.

1.1.98. "***Transporter(s)***" means all Gas pipeline companies, or local distribution companies, acting in the capacity of a transporter, transporting Gas for Seller or Purchaser upstream or downstream, respectively, of the Delivery Point for any Gas delivered hereunder and includes any person receiving said Gas at its Delivery Point.

1.1.99. "***Triggering Event***" an event described in Section 25.

1.1.100. "***Trustee***" means The Bank of New York Trust Company, N.A., as trustee under the Indenture, and any successor trustee under the Indenture.

1.1.101. "***Unearned Amount***" means, as of any Early Termination Date, the present value of the aggregate Savings discounted to the Early Termination Date at the LIBOR Rate as of the Early Termination Date.

1.2. <u>References and Construction</u>

In addition to the terms defined in Section 1.1, other terms are elsewhere defined in this Agreement and shall, for purposes of this Agreement, have the meanings so specified unless expressly indicated otherwise. The words "*hereof*," "*herein*," and "*hereunder*," and words of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement. The terms "*Article*," "*Section*," "*Exhibit*," and like references refer to such portions of this Agreement unless otherwise specified. Each Exhibit attached hereto is made a part hereof for all purposes. The term "person," in addition to natural persons, shall include firms, associations, trusts, corporations, partnerships, as well governments,

government agencies and political subdivisions of governments. Except where the context otherwise requires, words of any gender shall include correlative words of the other genders and words importing the singular number shall include the plural number and vice versa. Unless otherwise defined or the context otherwise requires, terms for which meanings are provided in this Agreement shall have such meanings when used in each notice or other communication delivered or given from time to time under or in connection with this Agreement.

Unless otherwise specified, any reference in this Agreement to time shall refer to the then prevailing Central Time.

The phrases "so long as the Supply Agreement is in effect" and "when the Supply Agreement is in effect" and any similar phrase used herein shall refer to the period from the effective date of the Supply Agreement to the date when Seller receives notice from Purchaser or the Trustee that the Supply Agreement has been terminated.

The phrase "purchased with funds in the Remediation Fund" and any similar phrase used herein, when applied to Gas or electricity purchased for Remediation Use, shall include both direct withdrawals from the Remediation Fund to purchase such Gas or electricity as well as purchases by Seller wherein the purchase price of such Gas or electricity is netted against the proceeds of the sale of such Gas or electricity in determining the amount payable by or due to Seller in any Month pursuant to Section 18.

2. TERM

This Agreement shall be effective from the date of execution and, except as provided in 33.16, shall continue in effect until December 31, 2027, unless terminated earlier pursuant to the terms of this Agreement (the ***"Term"***).

3. DELIVERY AND RECEIPT OBLIGATIONS

3.1. General. Beginning on the Delivery Start Date and on each Gas Day thereafter during the remaining Term of this Agreement, Seller shall deliver and Purchaser shall receive on a Firm basis the Daily Contract Quantity pursuant to the terms of this Agreement.

3.2. Purchaser's Postponement. Purchaser has the right at any time to request that Seller consider postponing the delivery of a specified portion of the Gas to be delivered hereunder on any Gas Day in a Delivery Month to such other Gas Day in such Delivery Month and on such terms as shall be agreed to by Seller and Purchaser (a "***Postponed Delivery Schedule***"). Seller shall have no obligation to agree to a Postponed Delivery Schedule.

3.3. Seller's Postponement. Seller has the right at any time to request that Purchaser consider a Postponed Delivery Schedule for the delivery of a specified portion of the Gas to be delivered hereunder on any Gas Day in a Delivery Month to such other Gas Day in such Delivery Month and on such terms as shall be agreed to by Seller and Purchaser. Purchaser shall have no obligation to agree to a Postponed Delivery Schedule.

4. CONSIDERATION

In consideration of Seller's agreement to deliver the Prepaid Gas, Purchaser shall pay Seller on or before February 6th, the sum of $212,661,363.06 (the ***"Prepayment"***), by wire transfer to an account designated by Seller. Such amount is the net cost to Purchaser for the Prepaid Gas and, as set forth herein, all costs, including transportation and Taxes associated with the Gas prior to delivery at the Delivery Point shall be borne by Seller and not by Purchaser. All costs including transportation and Taxes associated with the Gas at and after delivery at the Delivery Point shall be borne by Purchaser and not by Seller. In no event shall Purchaser be entitled to any rebate or refund of the Prepayment.

5. NON-PERFORMANCE BY SELLER

5.1. Seller Delivery Default. Upon the occurrence of a Seller Delivery Default, the party that first learns of such Seller Delivery Default shall notify the other party of such default promptly by telephone or facsimile transmission; provided that any failure to give such notice, or any delay in giving such notice, shall not affect Seller's obligations under this Section 5.1. The parties shall settle any Seller Delivery Default as set forth in Section 5.1.1 or Section 5.1.2 below, as applicable, with any payments to be made as provided in Section 18.2:

5.1.1. Payments. For each Gas Day in which a Seller Delivery Default occurs, Seller shall pay Purchaser an amount equal to the product of (a) the quantity of the Gas that Seller failed to deliver and (b) the sum of the Index Price plus the Administrative Fee, to which product shall be added:

5.1.1.1. If Purchaser has replaced the Gas utilizing the Cover Standard, the product of (a) the positive difference, if any, obtained by subtracting the Index Price from the price paid by Purchaser for such Replacement Gas utilizing the Cover Standard, including any additional transportation and related charges incurred as a result of the Seller Delivery Default, and (b) the quantity of the Gas that Seller failed to deliver; or

5.1.1.2. If the provisions of Section 5.1.1.1 are not applicable, the product of (a) the positive difference, if any, obtained by subtracting the Index Price from any cash out price charged Purchaser by any Transporter or if a cash out price was not charged by a Transporter, the Spot Price and (b) the quantity of the Gas that Seller failed to deliver.

5.1.2. Postponed Delivery in Lieu of Payments. To the extent agreed to by Purchaser, in lieu of making the payments provided in Section 5.1.1, Seller may request a Postponed Delivery Schedule for the Gas relating to a Seller Delivery Default in accordance with Section 3.3.

5.2. Replacement Gas Deemed Delivered Gas. Except for purposes of Section 25.2.4, all Replacement Gas shall be deemed Gas delivered by Seller pursuant to this Agreement.

5.3. Sole Remedies. Except with respect to the payment of Imbalance Charges pursuant to Section 15, and as provided in Section 25.2.4, the remedies set forth in Section 5 shall be Purchaser's sole and exclusive remedies for any Seller Delivery Default.

6. PURCHASER FAILURE TO RECEIVE GAS

6.1. Purchaser Receipt Failure. Upon the occurrence of a Purchaser Receipt Failure, the party that first learns of such Purchaser Receipt Failure shall notify the other party of such failure promptly by telephone or facsimile transmission; provided that any failure to give such notice, or any delay in giving such notice, shall not affect Seller's obligations under this Section 6.1. Notwithstanding a Purchaser Receipt Failure with respect to any portion of the Prepaid Gas, Seller shall be deemed to have tendered delivery of such portion of the Prepaid Gas to Purchaser and such portion of the Prepaid Gas shall not be included in any calculation of undelivered Gas for purposes of Section 25.2.4. The parties shall settle any Purchaser Receipt Failure as set forth in Section 6.1.1 or Section 6.1.2 below, as applicable, with any payments to be made as provided in Section 18.2:

6.1.1. Payments. For each Gas Day in which a Purchaser Receipt Failure occurs, Seller shall pay Purchaser an amount equal to the product of (a) the quantity of the Gas that Purchaser failed to receive and (b) the positive difference, if any, obtained by subtracting the Administrative Fee from the Index Price, from which product there shall be deducted:

6.1.1.1. If Seller has sold the Gas to a Third Party, utilizing the Cover Standard, the product of (a) the positive difference, if any, obtained by subtracting the price that Seller receives for such Gas using the Cover Standard, including any additional transportation and related charges incurred as a result of the Purchaser Receipt Failure, from the Index Price and (b) the quantity of the Gas that Purchaser failed to receive; or

6.1.1.2. If the provisions of Section 6.1.1.1 are not applicable, the product of (a) the positive difference, if any, obtained by subtracting any price at which the Gas is cashed out to Seller by any Transporter or if the Gas is not cashed out by a Transporter, the Spot Price from the Index Price and (b) the quantity of the Gas that Purchaser failed to receive.

6.1.2. Postponed Delivery of Gas in Lieu of Payments. To the extent agreed to by Purchaser, in lieu of making payments as provided in Section 6.1.1, Seller may request a Postponed Delivery Schedule for the Gas relating to the Purchaser Receipt Failure in accordance with Section 3.3.

6.2. Sole Remedies. Except with respect to the payment of Imbalance Charges pursuant to Section 15, the remedies set forth in Section 6 shall be Seller's sole and exclusive remedies for any Purchaser Receipt Failure.

7. QUALIFYING USE OF GAS

To maintain the Tax-Exempt Status of the Bonds, and except as permitted by Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2) and as otherwise approved by an opinion of Tax Counsel as preserving the Tax-Exempt Status of the Bonds, Purchaser is obligated to apply, or caused to be applied, the Prepaid Gas for a Qualifying Use.

8. SELLER REMARKETING PROVISIONS

8.1. Remarketing of Optional Gas. So long as the Supply Agreement is in effect and no Anticipatory Tax Event Period has occurred and is continuing and no Tax Event has occurred, if Purchaser delivers a Remarketing Notice to Seller, Seller shall remarket that portion of the Prepaid Gas specified by Purchaser from time to time in each Remarketing Notice ("***Optional Remarket Gas***") as follows:

8.1.1. Monthly Remarketing. If Seller receives Purchaser's Remarketing Notice to remarket Optional Remarket Gas for a period of one or more Months by the Monthly Notice Time, Seller shall remarket such Optional Remarket Gas to itself or a Third Party at a Remarketing Price equal to the Index Price.

8.1.2. Daily Remarketing. If no Remarketing Notice with respect to such portion of the Prepaid Gas has been received by Seller pursuant to Section 8.1.1 and Seller receives Purchaser's Remarketing Notice to remarket Optional Remarket Gas for a period of one or more Gas Days by the Daily Notice Time, Seller shall remarket such Gas to itself or a Third Party at a Remarketing Price equal to the Spot Price.

8.1.3. No Remarketing Notice. If Seller does not receive a Remarketing Notice with respect to any portion of the Prepaid Gas by the Daily Notice Time, Seller shall have no obligation to remarket Gas as Optional Remarket Gas and Seller shall be obligated to deliver and Purchaser shall be obligated to receive Gas in accordance in with Section 3.

8.2. Remarketing of Anticipatory Tax Event Remarket Gas. While the Supply Agreement is in effect, during each Anticipatory Tax Event Period, Seller shall use commercially reasonable efforts to remarket: (a) the Monthly Anticipatory Tax Event Remarket Gas for a Qualifying Use and for a Monthly period at a Remarketing Price equal to the highest possible price but in any event no less than the Index Price less a discount of up to $0.05 per MMBtu unless the Purchaser agrees to a higher discount; and (b) the Daily Anticipatory Tax Event Remarket Gas for a Qualifying Use and for a Gas Day at a Remarketing Price equal to the highest possible price but in any event no less than the Spot Price less a discount of up to $0.05 per MMBtu unless the Purchaser agrees to a higher discount. If Seller cannot remarket Anticipatory Tax Event Remarket Gas for a Qualifying Use at the applicable price set forth in the preceding sentence, Seller shall remarket the Anticipatory Tax Event Remarket Gas to itself or a Third Party as follows: (c) the Monthly Anticipatory Tax Event Remarket Gas shall be remarketed for a Monthly period at a Remarketing Price equal to the Index Price; and (d) the Daily Anticipatory Tax Event Remarket Gas shall be remarketed for a Gas Day at a Remarketing Price equal to the Spot Price. If no Retention Notice is received by Seller with respect to a portion of the Prepaid Gas by the Monthly Notice Time, such Prepaid Gas shall constitute Daily Anticipatory Tax Event Remarket Gas on each Gas Day during the applicable Month unless a Retention Notice is received by Seller with respect to a portion of the Prepaid Gas by the Daily Notice Time for a Gas Day during an Anticipatory Tax Event.

8.3. Remarketing of Tax Event Remarket Gas. While the Supply Agreement is in effect, if a Tax Event has occurred, Seller shall remarket the Tax Event Remarket Gas for a Qualifying Use at a Remarketing Price equal to the highest possible price but in any event no

less than the Contract Price; except that if Seller cannot remarket Tax Event Remarket Gas for a Qualifying Use at a price at least equal to the Contract Price, and Purchaser has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, Seller shall remarket the Tax Event Remarket Gas to itself or a Third Party as follows: (a) the Monthly Tax Event Remarket Gas shall be remarketed for a Monthly period at a Remarketing Price equal to the Index Price; and (b) the Daily Tax Event Remarket Gas shall be remarketed for a Gas Day at a Remarketing Price equal to the Spot Price.

8.4. Remarketing of Termination Remarket Gas. Upon receipt of notice that the Supply Agreement is no longer in effect, Seller shall use commercially reasonable efforts to remarket the Termination Remarket Gas at a Remarketing Price equal to the highest possible price but in any event no less than the Contract Price; except that: (a) if a Tax Event has occurred, Seller shall remarket the Termination Remarket Gas for a Qualifying Use at a Remarketing Price equal to the highest possible price but in any event no less than the Contract Price; and (b) if, after the occurrence of a Tax Event, Seller cannot remarket the Termination Remarket Gas for a Qualifying Use at a Remarketing Price no less than the Contract Price, and Purchaser has received an opinion of Tax Counsel that such sales will not adversely affect the Tax-Exempt Status of the Bonds, Seller shall remarket the Termination Remarket Gas to itself or a Third Party at the Contract Price.

8.5. Remarketing Guidelines. Seller will maintain books and records regarding each remarketing of Prepaid Gas pursuant to Section 8 and shall provide Purchaser and the Trustee with a monthly report showing: the date of such remarketing; the name of the buyer; the Remarketing Price; and whether such remarketing was for a Qualifying Use or a Non-Qualifying Use. Seller shall remarket all Prepaid Gas remarketed pursuant to Section 8 for a Qualifying Use if the Remarketing Price is equal to or greater than the Remarketing Price in remarketing such Gas for a Non-Qualifying Use. A Qualifying Use Certificate delivered by the buyer of such Gas shall in all cases evidence the use of Gas remarketed hereunder for a Qualifying Use.

8.6. Remarketing on Purchaser's Behalf. All Gas remarketed pursuant to Section 8 shall be for the benefit of Purchaser in that all such remarketed Gas shall be deemed to be Prepaid Gas delivered by Seller and received by Purchaser hereunder and then remarketed for Purchaser pursuant to the terms of this Agreement.

9. REMEDIATION PROVISIONS

9.1. Remediation Provisions in Supply Agreement. Purchaser shall cause the Supply Agreement to provide all of the following: (a) Municipality shall establish and maintain the Remediation Fund so long as any Bonds are outstanding under the Indenture, which obligation shall survive the termination of the Supply Agreement; (b) Municipality shall deposit in the Remediation Fund all amounts received with respect to any of the Prepaid Gas remarketed by any person for a Non-Qualifying Use; (c) Municipality shall use commercially reasonable efforts to cause all Proceeds Subject to Remediation in the Remediation Fund to be applied for a Remediation Use within twelve months of the applicable Receipt Date; (d) whenever Municipality can apply Gas for a Qualifying Use, Municipality shall first apply Prepaid Gas delivered hereunder for such Qualifying Use and whenever Municipality can apply Gas or electricity for a Qualifying Use, after applying Prepaid Gas delivered hereunder for such

Qualifying Use Municipality will next then apply Proceeds Subject to Remediation in the Remediation Fund to such Qualifying Use; (e) Proceeds Subject to Remediation in the Remediation Fund shall be deemed expended in order of the deposit of the applicable Remarketing Price on a first-in, first-out basis; (f) on or before the 10th Day of each Month, or if such Day is not a Business Day, the next succeeding Business Day, Municipality shall provide Purchaser and Seller a written report specifying: (i) the date of deposit in the Remediation Fund of all amounts described in clause (b) above, and all Proceeds Subject to Remediation relating to such amounts, in each case which remain on deposit in the Remediation Fund as of the last day of the immediately preceding Month; and (ii) the details of each application of Proceeds Subject to Remediation for a Remediation Use during the immediately preceding Month by any person other than Seller; (g) in the event that any Proceeds Subject to Remediation remain on deposit in the Remediation Fund for twenty-two (22) months after the applicable Receipt Date, the Municipality shall transfer such Proceeds Subject to Remediation and any other required funds to the Trustee for deposit in the Redemption Fund to be applied to the redemption of Bonds as directed by Purchaser and approved by Tax Counsel as preserving the Tax-Exempt Status of the Bonds; (h) that in the event (y) an Anticipatory Tax Event Period occurs and is continuing, or (z) a Tax Event has occurred, all of the following shall apply: (A) on or before the Monthly Notice Time for each Delivery Month, Municipality shall provide Purchaser and Seller a Retention Notice with respect to the portion of the Monthly Contract Quantity that Municipality expect to apply for a Qualifying Use during such Delivery Month, and (B) to the extent not included in the Retention Notice provided by clause (A) of this subsection (h), on or before the Daily Notice Time for each Gas Day, Municipality shall provide Purchaser and Seller a Retention Notice with respect to the portion of the Daily Contract Quantity that Municipality expects to apply for a Qualifying Use during such Gas Day; and (i) that in the event (x) any Proceeds Subject to Remediation remain in the Remediation Fund for twelve months after the applicable Receipt Date; or (y) an Anticipatory Tax Event Period occurs and is continuing, or (z) a Tax Event has occurred, all of the following shall apply: (A) Municipality shall make all Proceeds Subject to Remediation in the Remediation Fund available to the Seller to the extent necessary to carry out its obligations under Section 9.3; (B) Municipality shall use amounts in the Remediation Fund solely to pay for Gas or electricity which is used for a Qualifying Use; (C) Municipality shall provide Seller not less than five (5) Business Days notice of each purchase of Gas or electricity pursuant to clause (B) of this subsection (i) as to which payment is expected to be made with a withdrawal from the Remediation Fund; and (D) Municipality shall not withdraw any amount from the Remediation Fund with respect to a purchase described in clause (B) of this subsection (i) if within two (2) Business Days after giving the notice to Seller pursuant to said clause (B), Seller delivers notice to Municipality that it has made binding commitments to purchase and sell Gas or electricity pursuant to Section 9.3 and, after a withdrawal for a purchase by Municipality pursuant to clause (B) of this subsection (i) there will not remain on deposit in the Remediation Fund an amount equal to the purchase price of such Gas or electricity to be purchased by Seller pursuant to Section 9.3.

9.2. Qualifying Use Report. On or before the 15th Day of each Month, or if such Day is not a Business Day, the next succeeding Business Day, Seller shall provide to Purchaser a written report (the "***Qualifying Use Report***") which includes: (a) a calculation of the Total Non-Qualifying Prepaid Gas as of the last Day of the preceding Month and (b) while the Supply Agreement is in effect, a calculation of the Current Non-Qualifying Prepaid Gas as of the last Day of the preceding Month. While the Supply Agreement is in effect, the calculation of the

Total Non-Qualifying Prepaid Gas and the Current Non-Qualifying Prepaid Gas shall be based, with respect to sales by or on behalf of Municipality of Gas delivered pursuant to the Supply Agreement, other than by Seller, on the reports from Municipality required by Section 9.1(f).

9.3. Remediation by Seller.

9.3.1. Seller Efforts to Remediate. So long as the Supply Agreement is in effect, in the event that any Proceeds Subject to Remediation remain in the Remediation Fund for twelve months Seller shall use commercially reasonable efforts to cause such Proceeds Subject to Remediation, or upon the occurrence and continuance of an Anticipatory Tax Event Period or upon the occurrence of a Tax Event, Seller shall use commercially reasonable efforts to cause all Proceeds Subject to Remediation on deposit in the Remediation Fund to be applied for a Remediation Use, including selling Gas or electricity purchased with Proceeds Subject to Remediation for a Qualifying Use. Seller shall use commercially reasonable efforts to sell the Gas and electricity purchased with Proceeds Subject to Remediation for a Qualifying Use at a Remarketing Price equal to the highest possible price but in any event no less than the price Seller paid for the Gas or electricity purchased with the Proceeds Subject to Remediation less a discount of not exceeding $0.05 per MMBtu or $0.50 per megawatt hour of electricity, as the case may be, unless the Purchaser agrees to a higher discount.

9.3.2. Purchases and Sales by Seller. In selling Gas or electricity purchased with Proceeds Subject to Remediation for a Qualifying Use pursuant to Section 9.3.1, Seller will not actually draw money from the Remediation Fund but rather will purchase such Gas or electricity using its own funds or credit and receive all payments on the sale of such Gas or electricity for a Qualifying Use. For each Month in which such purchases and sales are to be settled, Seller shall prepare a report by the 10th day of such Month listing each such purchase and sale and aggregating the amounts of all such purchases and sales. Seller shall provide Purchaser and Municipality supporting documentation acceptable in industry practice to support the amounts set forth in the report required by this Section 9.3.2, including identifying the volumes of Gas or electricity purchased and sold, the delivery points, dates and times of such purchases and sales, the sellers and buyers of such Gas and electricity and such other information as may be necessary to provide proper evidence of the accuracy of the transactions listed in such report.

9.3.3. Payments in Connection with Remediation. If the report required by Section 9.3.2 indicates the aggregate amount of all such sales is greater than the aggregate amount of all such purchases, Seller shall provide Municipality a copy of the report and pay such difference on or before 11:00 a.m. on the 25th Day of such Month, or if such Day is not a Business Day on the next succeeding Business Day by the wire transfer of immediately available United States funds. If the report required by Section 9.3.2 indicates that the aggregate amount of all such purchases is greater than the aggregate amount of all such sales, Seller shall provide Purchaser and Municipality a copy of the report by the 15th day of such Month and Purchaser shall cause Municipality to pay such difference on the 25th Day of such Month, or if such Day is not a Business Day on the next succeeding Business Day by the wire transfer of immediately available United States funds. Payments by or to Seller pursuant to this Section 9.3.3 shall not be subject to the netting provisions of Section 18.1.3.

9.4. Redemption of Bonds. So long as the Supply Agreement is in effect, in the event that any Proceeds Subject to Remediation remain on deposit in the Remediation Fund for twenty-two (22) months after the applicable Receipt Date, Purchaser shall cause the Municipality to transfer such Proceeds Subject to Remediation and any other required funds to the Trustee for deposit in the Redemption Fund to be applied to the redemption of Bonds as directed by Purchaser and approved by Tax Counsel as preserving the Tax-Exempt Status of the Bonds.

10. FORCE MAJEURE

10.1. Party's Obligations. Except with regard to a party's obligation to make payment(s) due hereunder, neither party shall be liable to the other for failure to perform an obligation under this Agreement, to the extent such failure was caused by Force Majeure.

10.2. Definition. Force Majeure shall mean: (a) physical events such as acts of God, landslides, lightning, earthquakes, fires, storms or storm warnings, such as hurricanes, which result in evacuation of the affected area, floods, washouts, explosions, breakage or accident or necessity of repairs to machinery or equipment or lines of pipe; (b) weather related events affecting an entire geographic region, such as low temperatures which cause freezing or failure of wells or lines of pipe; (c) interruption and/or curtailment of Firm transportation and/or storage by Transporters; (d) acts of others such as strikes, lockouts or other industrial disturbances, riots, sabotage, insurrections or wars; (e) governmental actions such as necessity for compliance with any court order, law, statute, ordinance, regulation, or policy having the effect of law promulgated by a governmental authority having jurisdiction and (f) any other causes, whether of the kind herein enumerated or otherwise (but not including economic hardship), not caused by the negligent or intentional act or omission of the party claiming suspension and which, by exercise of due diligence, such party is unable to overcome. Seller and Purchaser shall make reasonable efforts to avoid the adverse impacts of a Force Majeure and to resolve the impacts of an event of Force Majeure once it has occurred in order to resume performance.

10.3. Exclusions. Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances: (a) the curtailment of interruptible or secondary Firm transportation unless primary, in-path, Firm transportation is also curtailed; (b) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; (c) economic hardship, including, without limitation, Seller's ability to sell Gas at a higher or more advantageous price than the price payable hereunder, Purchaser's ability to purchase Gas at a lower or more advantageous price than the price payable hereunder, or a regulatory agency disallowing, in whole or in part, the pass through of costs resulting from this Agreement; (d) the loss of Purchaser's market(s) or Purchaser's inability to use or resell Gas purchased hereunder, except, in either case, as provided in Section 10.2; or (e) the loss or failure of Seller's Gas supply or depletion of reserves, except, in either case, as provided in Section 10.2. The party claiming Force Majeure shall not be excused from its responsibility for Imbalance Charges.

10.4. Industrial Disturbances. Notwithstanding anything to the contrary herein, the parties agree that the settlement of strikes, lockouts or other industrial disturbances shall be within the sole discretion of the party experiencing such disturbance.

10.5. Discrimination. In claiming a Force Majeure event under this Agreement, Seller shall not discriminate against Purchaser as compared to Seller's other customers and, unless otherwise agreed to by Purchaser with respect to a particular Force Majeure event, will apply available resources and facilities to the delivery of Gas hereunder and the delivery of Gas to Seller's other customers on at least a pro rata basis.

10.6. Notification. If Seller fails to deliver Gas as required under this Agreement, or Purchaser fails to receive Gas as required under this Agreement, and such failure is caused by an event of Force Majeure, the party that first learns of such failure shall promptly notify the other party by telephone or facsimile transmission. Notwithstanding anything to the contrary herein, the party whose performance is prevented by Force Majeure must provide notice to the other party. The affected party may give an initial notice orally; however, written notice with reasonably full particulars of the event or occurrence is required as soon as reasonably possible. Upon providing written notice of Force Majeure to the other party, the affected party will be relieved of its obligation, from the onset of the Force Majeure event, to make or accept delivery of Gas, as applicable, to the extent and for the duration of Force Majeure, and neither party shall be deemed to have failed in such obligations to the other during such occurrence or event.

10.7. Seller Payment. During any Delivery Month in which all or a portion of the Monthly Contract Quantity is not delivered or received due to Force Majeure, Seller shall pay Purchaser, as provided in Section 18.2, an amount equal to the product of (a) the quantity of the Monthly Contract Quantity not taken because of the Force Majeure and (b) the Index Price. Payment of such amount shall satisfy Seller's obligation to deliver, and Purchaser's obligation to receive, the Gas which was not delivered or received due to Force Majeure.

11. DELIVERY AND ACCEPTANCE

11.1. Delivery. Seller shall deliver the Gas required to be delivered hereunder to the Delivery Points, for the account of Purchaser, in the respective quantities of Gas specified for each Delivery Point as determined with and under the conditions set forth in Section 11.

11.2. Alternate Delivery Points Selected by Seller. Subject to Purchaser's prior written approval, in Purchaser's sole discretion, Seller may deliver Gas pursuant to the terms of this Agreement at Alternate Delivery Points other than the Primary Delivery Point; provided, however, that any time that the applicable Transporter or Transporters have imposed any limitations upon deliveries of Gas at such Alternate Delivery Points, Seller shall be obligated to deliver Gas to the Primary Delivery Point. Seller shall reimburse Purchaser for all incremental basis, incremental index premium and additional transportation costs, if any, specified by Purchaser in connection with its approval of the Alternate Delivery Points and any additional incremental basis, incremental index premium and additional transportation costs reasonably incurred by Purchaser, as a result of Seller delivering quantities of Gas at Alternate Delivery Points.

11.3. Alternate Delivery Points Selected by Purchaser. Purchaser may request, subject to Seller's written approval, in Seller's sole discretion, delivery of Gas pursuant to the terms of this Agreement at Alternate Delivery Points provided, however, that any time that the applicable Transporter or Transporters have imposed any limitations upon deliveries of Gas at such

Alternate Delivery Points, Purchaser shall be obligated to receive Gas at the Primary Delivery Point. Purchaser shall reimburse Seller for all incremental basis, incremental index premium and additional transportation costs, if any, specified by Seller in connection with its approval of the Alternate Delivery Points and any additional incremental basis, incremental index premium and additional transportation costs reasonably incurred by Seller, as a result of Seller delivering quantities of Gas at Alternate Delivery Points.

11.4. Acceptance. Purchaser shall accept delivery of Gas from Seller made in accordance with and under the terms and conditions set forth herein in the quantities and at the Delivery Points determined hereunder.

12. TITLE AND LIABILITY

12.1. Title. Title to the Gas delivered hereunder shall pass from Seller to Purchaser at the Delivery Point for such Gas.

12.2. Liability. As between the parties hereto, Seller shall be in control and possession of Gas and responsible for any injuries, Claims, liabilities or damages caused thereby until the Gas has been delivered for the account of Purchaser to the Delivery Point for such Gas, and, at and after such delivery, Purchaser shall be in control and possession of the Gas and responsible for any injuries, Claims, liabilities or damages caused thereby.

13. TRANSPORTATION

As between the parties, Seller shall have the sole responsibility for transporting Gas to the Delivery Points and Purchaser shall have the sole responsibility for transporting Gas from the Delivery Points.

14. NOMINATIONS

The parties shall coordinate their nomination activities, giving sufficient time to meet the deadlines of the affected Transporters. Each party shall give the other party timely prior notice, sufficient to meet the requirements of all Transporters involved in the transaction of the quantities of Gas to be delivered and purchased each Gas Day. Should either party become aware that actual deliveries at the Delivery Points are greater or less than that required by the terms of this Agreement, such party shall promptly notify the other party; provided that any failure to give such notice, or any delay in giving such notice, shall not affect a party's obligations under this Agreement.

15. IMBALANCES

If (a) an imbalance occurs on the system of a Transporter receiving or transporting Gas on behalf of Purchaser which is caused by the delivery by Seller or any pipeline or any other party receiving or transporting Gas on behalf of Seller of less or more than the quantity of Gas scheduled to be delivered hereunder (an ***"Imbalance"***) for any Gas Day during the Term hereof (in which case Seller shall be deemed to be the ***"Responsible Party"***), or (b) an Imbalance occurs on the system of a Transporter receiving or transporting Gas on behalf of Seller because of the receipt by Purchaser or any pipeline or other party receiving or transporting Gas on behalf of

Purchaser of more or less than the quantity of Gas scheduled to be received hereunder on any Gas Day during the Term hereof (in which case Purchaser shall be deemed to be the ***"Responsible Party"***), the Responsible Party will be liable to the other party for any associated Imbalance Charges. Imbalance Charges shall be paid as provided in Section 18.2. The parties shall use commercially reasonable efforts to avoid the imposition of any Imbalance Charges. If Purchaser or Seller receives an invoice from a Transporter that includes Imbalance Charges for an Imbalance under this Agreement, the parties shall determine the validity as well as the cause of such Imbalance Charges.

16. QUALITY AND MEASUREMENT

16.1. Pipeline Specifications. Gas delivered hereunder shall meet the pipeline quality and heat specifications as defined in the gas tariff filed by the applicable Transporter and accepted by F.E.R.C. as applicable to Gas at the respective Delivery Points.

16.2. Measurement. Gas delivered hereunder shall be measured by Transporters at the respective Delivery Points where possible and, in all other instances shall be measured by the operators of the facilities at the Delivery Points and reported to the Transporters. The unit of quantity measurement for purposes of this Agreement shall be one (1) MMBtu dry. Measurement of Gas quantities hereunder shall be in accordance with the established procedures of the applicable Transporters or operators.

16.3. Btu Content. The Btu content of the Gas delivered hereunder shall be determined each Month based upon the measurements and calculations made by the applicable Transporter in accordance with the gas tariff approved for such Transporter by F.E.R.C.

17. TAXES; CHANGE IN APPLICABLE LAWS

17.1. Taxes. The Prepayment includes full reimbursement for, and Seller is liable for and shall pay, or cause to be paid, or reimburse Purchaser if Purchaser has paid, all Taxes applicable to Gas sold hereunder upstream of the Delivery Points. Seller shall indemnify, defend, and hold Purchaser harmless from any liability with respect to all such Taxes upstream of the Delivery Points. The Prepayment does not include reimbursement for, and Purchaser is liable for and shall pay, cause to be paid, or reimburse Seller if Seller has paid, all Taxes applicable to Gas sold hereunder at or downstream of the Delivery Point for such Gas, including any such Taxes imposed or collected by a taxing authority with jurisdiction over Purchaser. Purchaser shall indemnify, defend, and hold Seller harmless from any liability with respect to all such Taxes at or downstream of the Delivery Points. Notwithstanding any of the preceding provisions of this Section 17.1 to the contrary, each party shall remain responsible for, and shall pay, all taxes based on net income and net worth and all state franchise, license, and similar taxes required for the maintenance of corporate existence assessed, in each case, against the relevant party. Upon request, a party shall provide a certificate of exemption or other reasonably satisfactory evidence of exemption from any Tax for which it is eligible, and each party agrees to cooperate with the other party in any reasonable effort to obtain any such exemption.

17.2. Material Tax Increase. Should either party (including, for purposes of this Section 17.2 while the Supply Agreement is in effect, in the case of Purchaser, Municipality)

become subject to a "Material Tax Increase" (as hereinafter defined) for which it is responsible under 17.1, such party may give notice to the other party of the Material Tax Increase. Purchaser and Seller shall then promptly commence negotiations in good faith in order to equitably adjust the rights and obligations of the parties hereunder in light of such Material Tax Increase; provided that any such adjustment to such rights and obligations must be made in compliance with the terms of Section 7.11 of the Indenture. If the parties are unable to reach agreement after 60 days, then the party affected by the Material Tax Increase may give notice to the other party of its intent to terminate this Agreement as provided in Section 26. "***Material Tax Increase***" means a New Tax actually imposed by a governmental entity with jurisdiction to impose such New Tax (as confirmed by an opinion of nationally recognized tax counsel), the imposition of which materially adversely changes the economic benefit of this Agreement to the payer of the New Tax, which material adverse change shall be documented by the party seeking termination of this Agreement to the extent reasonably requested by the other party.

17.3. Change in Applicable Laws.

17.3.1. Adverse Governmental Action. In the event that the F.E.R.C., Congress or any other regulatory authority with jurisdiction (a) imposes price controls on Gas which materially and adversely affects a party's rights or obligations under this Agreement or, while the Supply Agreement is in effect, Municipality's or Purchaser's rights or obligations under the Supply Agreement; (b) prohibits or prevents (other than for a period of less than sixty (60) Days) to a material extent (i) the fulfillment of the obligations of Seller or Purchaser under this Agreement or, while the Supply Agreement is in effect, Purchaser or Municipality under the Supply Agreement, or (ii) the transportation of the Gas to be delivered hereunder; (c) directly or indirectly restricts, imposes conditions on or affects this Agreement or, while the Supply Agreement is in effect the Supply Agreement, in a manner which materially and adversely affects a party's rights or obligations under this Agreement or the Purchaser's or Municipality's rights under the Supply Agreement (each of the events described above being referred to herein as an "***Adverse Governmental Action***"), or if a governmental authority declares that an Adverse Governmental Action shall be effective on a future date, then the party affected by such Adverse Governmental Action (in the case of Municipality, Purchaser) (the "***Affected Party***") shall notify the other party of such Adverse Governmental Action. Purchaser and Seller shall then promptly commence negotiations in good faith in order to equitably adjust the rights and obligations of the parties hereunder in the light of such Adverse Governmental Action; provided that any such adjustment to such rights and obligations must be made in compliance with the terms of Section 7.11 of the Indenture. If the parties are unable to reach agreement after sixty (60) Days, then the Affected Party may give notice to the other party of its intent to terminate this Agreement as provided in Section 26.

17.3.2. Illegality. If any Adverse Governmental Action effective after the effectiveness of this Agreement would cause the continued performance hereunder, or while the Supply Agreement is in effect the Supply Agreement, by an Affected Party to be in material violation of any law, enforcement action, rule, order or regulation (an "***Illegality***"), notwithstanding any provision herein to the contrary, the Affected Party (in the case of Municipality, Purchaser) may suspend the scheduling, delivery and receipt of Gas under this Agreement effective upon notice to the other party. If the Illegality causes the performance of either party of any of its material obligations hereunder, or the performance of either party of any

of its material obligations under the Supply Agreement, to be in material violation of a law, enforcement action, rule or regulation, then any resulting failure by a party to this Agreement or the Supply Agreement to perform thereunder shall be treated as nonperformance by a party (including in the case of Municipality, Purchaser) as a result of Force Majeure under Section 10. Purchaser and Seller shall endeavor in good faith to resolve the impact of the relevant Illegality or to equitably adjust the rights and obligations of the parties hereunder so as to permit performance to resume under this Agreement in compliance with, and not in violation of, any such law, enforcement action, rule, order, or regulation; provided that any such adjustment to such rights and obligations must be made in compliance with the terms of Section 7.11 of the Indenture. If performance under this Agreement is suspended for sixty (60) or more Days pursuant to this Section 17.3.2, Purchaser or Seller may, at its option, give notice to the other party and Municipality of its intent to terminate this Agreement as provided in Section 26.

18. BILLING AND PAYMENT

18.1. Invoices.

18.1.1. On or before the 10th Day of each Month, from February, 2008 to and including the Month following the final Month of the Term of this Agreement, Purchaser shall prepare and deliver to Seller and the Trustee a statement (the ***"Purchaser Billing Statement"***) specifying all amounts payable by Seller to Purchaser relating to Gas required to be delivered and received in the preceding Month and all other charges hereunder incurred during the preceding Month, other than Gas Payments and Remarketing Price, including Taxes, Imbalance Charges, transportation charges, Replacement Gas charges and indemnification payments. Purchaser shall provide supporting documentation acceptable in industry practice to support the amounts set forth in the Purchaser Billing Statement, including identifying on the Purchaser Billing Statement the Replacement Gas volumes delivered and such other information as may be necessary to provide proper evidence of the volumes and value of Replacement Gas delivered.

18.1.2. On or before the 15th Day of each Month, from February, 2008 to and including the Month following the final Month of the Term of this Agreement, Seller shall prepare and deliver to Purchaser and the Trustee a statement (the ***"Seller Billing Statement"***) specifying: (a) all amounts payable by Seller to Purchaser as Gas Payments relating to Gas required to be delivered and received in the preceding Month; (b) all amounts payable by Seller to Purchaser as Remarketing Price relating to Gas required to be delivered and received in the preceding Month; and (c) all other charges hereunder incurred during the preceding Month, including, Taxes, Imbalance Charges, transportation charges and indemnification payments. Seller shall provide supporting documentation acceptable in industry practice to support the amounts set forth in the Seller Billing Statement, including identifying on the Seller Billing Statement the volumes of Gas delivered hereunder, the volumes of Gas not delivered as a result of Force Majeure, the volumes of Gas remarketed pursuant to Section 8, and the Remarketing Price for each such remarketing and such other information as may be necessary to provide proper evidence of the volumes and value of Gas delivered and remarketed hereunder.

18.1.3. On or before the 15th Day of each Month, from February, 2008 to and including the Month following the final Month of the Term of this Agreement, Seller shall

prepare and deliver to Purchaser and the Trustee an invoice with respect to amounts accruing during the preceding Month. In preparing such invoice, all amounts, charges and adjustments contained in the Purchaser's Statement shall be netted against all amounts, charges and adjustments, other than Gas Payments and Remarketing Price, contained in the Seller's Statement such that a single payment with respect to such amounts, charges and adjustments, other than Gas Payments and Remarketing Price, shall be made by the party owing the net amount. The invoice shall specify: (a) the amount payable by Seller to Purchaser as Gas Payments relating to Gas required to be delivered and received in the preceding Month; (b) the amount payable by Seller to Purchaser as Remarketing Price relating to Gas required to be delivered and received in the preceding Month; and (c) the net amount of other amounts, charges and adjustments accruing during the preceding Month and the party owing such net amount. Each monthly invoice shall specify the Gas Payments due from each party with respect to the Gas required to be delivered during the preceding Month. If the actual quantity of Gas delivered is not known by the billing date, billing will be prepared based on the quantity of Gas that had been scheduled. The invoiced quantity will then be adjusted to the actual quantity on the following Month's billing or as soon thereafter as actual delivery information is available. Payments of amounts invoiced by Seller pursuant to this Section 18.1.3 shall be made by the party owing payment as provided in Section 18.2.

18.2. Manner of Payment. Unless a different time of payment is specified herein for a particular payment, payments due hereunder shall be made by the party owing the payment on or before 11:00 a.m. on the 25th Day of the Month next succeeding the Month in which Gas is delivered or deemed delivered hereunder, Gas is remarketed, Gas or electricity is purchased and sold for a Remediation Use, or the other transaction or event giving rise to such payment occurred ("***Payment Date***"); provided that if the Payment Date is not a Business Day, payment is due on the next succeeding Business Day. All payments hereunder shall be made in immediately available United States funds by wire transfer. All payments hereunder by Seller shall be made to the Trustee for deposit in the Revenue Fund (as defined in the Indenture) except as follows: Termination Payments shall be made to the Trustee for deposit in the Termination Redemption Fund (as defined in the Indenture); Unearned Amounts shall be made to Purchaser for deposit in the Operating Fund (as defined in the Indenture); the Remarketing Price of Gas remarketed by Seller pursuant to Section 8 or Section 6 while the Supply Agreement is in effect shall be paid to Municipality; and net amounts owed by Seller from sales of Gas or electricity by Seller in a Month pursuant to Section 9.3 while the Supply Agreement is in effect shall be paid to Municipality.

18.3. Disputed Amounts.

18.3.1. Purchaser and Seller shall pay the invoiced amount for all Gas Payments in the manner set forth in Section 18.2 on an absolutely net basis free of any deductions and without abatement, diminution or setoff whatsoever irrespective of any defense or any rights of setoff, recoupment or counterclaim a party might otherwise have against the other party or any other person.

18.3.2. If the invoiced party, in good faith, disputes the amount of any invoice received under this Agreement, or any part thereof, other than any invoice for a Gas Payment, the invoiced party will pay such amount as it concedes to be correct; provided,

however, if the invoiced party disputes the amount due, it must, on or before the Payment Date, provide written notice to the other party and the Trustee of the disputed amount and supporting documentation acceptable in industry practice to support the amount paid or disputed. The parties shall then confer and attempt to resolve the disputed amount by agreement. In the event the parties are unable to resolve such dispute, either party may pursue any remedy available at law or in equity to enforce its rights pursuant to this Agreement with respect to such disputed amount.

18.3.3. If a party, in good faith, disputes the amount of any Gas Payment, it must, on or before the Payment Date, provide written notice to the other party and the Trustee of the disputed amount and supporting documentation acceptable in industry practice to support the amount disputed. The parties shall then confer and attempt to resolve the disputed amount by agreement. In the event the parties are unable to resolve such dispute, either party may pursue any remedy available at law or in equity to enforce its rights pursuant to this Agreement with respect to such disputed amount.

18.4. Interest on Unpaid Payments. If the invoiced party fails to remit the full amount payable when due, interest on the unpaid portion shall accrue from the date due until the date of payment at a rate equal to the lower of (i) Prime Rate, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

19. AUDITS

A party shall have the right, upon reasonable notice and between 8:00 a.m. and 5:00 p.m., local time, on any Business Day, and upon the execution of reasonable confidentiality/access agreements, to verify the accuracy of any statement, charge, payment, or computation made under the Agreement. This right to verify shall include the right to examine, audit, and to obtain copies of documents and records (collectively "Audit") but shall not be available with respect to proprietary information not directly relevant to transactions under this Agreement. Each party shall bear its own costs incurred in connection with any Audit made pursuant to this Section 19. Such right to audit shall be available for the Term of this Agreement and for two years thereafter. All Audits shall be on a confidential basis. For purposes of this audit provision, the parties deem at least two weeks as reasonable notice unless the Audit occurs as the result of a Triggering Event. Upon the occurrence of a Triggering Event, the requesting party may give one (1) Business Day's notice of an Audit. Notwithstanding anything to the contrary contained herein, nothing in this Section 19 shall obligate a party to retain any document related to this Agreement for any period in excess of that which would be required under that party's normal document retention policy. Each party shall give the other party notice of any change in its normal document retention policy made after the effectiveness of this Agreement.

20. INDEMNIFICATION

20.1. Indemnities of Seller. Regardless of any investigation made at any time by or on behalf of Purchaser or any information Purchaser may have, and regardless of the presence or absence of insurance, Seller, to the extent permitted by applicable law, shall indemnify and hold harmless Purchaser and its Indemnity Group from and against any and all Claims caused by,

arising out of, resulting from, or relating in any way to, and to pay Purchaser and each member of its Indemnity Group any sum that such person pays or becomes obligated to pay on account of: (a) any adverse Claim by any person based on title to or interest in the Gas sold under this Agreement or the proceeds from the sale thereof; or (b) **ANY CLAIM BY ANY PERSON FOR INJURY TO OR DEATH OF ANY PERSON, PERSONS, OR OTHER LIVING THINGS, OR LOSS OR DESTRUCTION OF PROPERTY, ARISING FROM ANY ACT OR ACCIDENT OCCURRING WITH RESPECT TO GAS TO BE DELIVERED HEREUNDER WHEN TITLE TO THE GAS SOLD HEREUNDER IS VESTED IN SELLER, INCLUDING, WITHOUT LIMITATION, ACTS OR ACCIDENTS ARISING OUT OF THE SOLE, JOINT, OR CONCURRENT NEGLIGENCE (BUT NOT THE GROSS NEGLIGENCE, WILLFUL MISCONDUCT, OR BAD FAITH) OF PURCHASER.**

20.2. Indemnities of Purchaser. Regardless of any investigation made at any time by or on behalf of Seller or any information Seller may have, and regardless of the presence or absence of insurance, Purchaser, to the extent permitted by applicable law, shall indemnify and hold harmless Seller and its Indemnity Group from and against any and all Claims caused by, arising out of, resulting from, or relating in any way to, and to pay Seller and each member of its Indemnity Group any sum that such person pays or becomes obligated to pay on account of: (a) any adverse Claim by any person based on title to or interest in the Gas delivered under this Agreement or the proceeds from the sale thereof; or (b) **ANY CLAIM BY ANY PERSON FOR INJURY TO OR DEATH OF ANY PERSON, PERSONS, OR OTHER LIVING THINGS, OR LOSS OR DESTRUCTION OF PROPERTY, ARISING FROM ANY ACT OR ACCIDENT WITH RESPECT TO GAS TO BE DELIVERED HEREUNDER OCCURRING WHEN TITLE TO THE GAS SOLD HEREUNDER IS VESTED IN PURCHASER, INCLUDING, WITHOUT LIMITATION, ACTS OR ACCIDENTS ARISING OUT OF THE SOLE, JOINT, OR CONCURRENT NEGLIGENCE (BUT NOT THE GROSS NEGLIGENCE, WILLFUL MISCONDUCT, OR BAD FAITH) OF SELLER.**

20.3. Notice of Claims; Defense; Settlement. Upon the discovery by any party entitled to indemnification under any provision of this Agreement of facts giving rise to a Claim for indemnification hereunder, including the receipt by any such party of notice of any Claim by any Third Party, the party entitled to indemnification shall give prompt written notice of any such Claim to the other party. For purposes of this Section 20.3, the party giving notice of a Claim and requesting indemnification shall be referred to as the "***Indemnified Party***," and the party receiving notice of a Claim and from which indemnification is sought shall be referred to as the "***Indemnifying Party***." Each such notice shall set forth the facts known to the Indemnified Party pertaining to the Claim and shall specify the manner in which the Indemnified Party proposes to respond to the Claim. Within ten (10) Days of the receipt by the Indemnifying Party of such notice, the Indemnifying Party shall state in writing to the Indemnified Party: (a) whether the Indemnified Party may proceed to respond to the Claim in the manner set forth in its notice, or (b) whether the Indemnifying Party shall assume responsibility for and conduct the negotiation, defense, or settlement of the Claim, and if so, the specific manner in which the Indemnifying Party proposes to proceed (which assumption of responsibility shall, in no event, be an admission or recognition of the legitimacy of truthfulness of such Claim). If the Indemnifying Party assumes control of the Claim, the Indemnified Party shall at all times have the right to participate

in the defense thereof and to be represented, at its sole expense, by counsel selected by it. If the Indemnifying Party disputes its potential liability to the Indemnified Party within such ten-Day period, the Indemnified Party shall be entitled to assume responsibility for and conduct the negotiation, defense, or settlement of the Claim. Unless the Indemnifying Party is denying responsibility for indemnification hereunder with respect to such Claim, no Claim shall be compromised or settled by either the Indemnifying Party or the Indemnified Party, as applicable, in any manner that might adversely affect the interest of the other party without the prior written consent of such other party. If the Indemnifying Party is denying responsibility for indemnification with respect to a Claim, no settlement of such Claim without its consent shall prejudice the rights of the Indemnified Party to any indemnification due under this Agreement. As a condition precedent to indemnification under this Agreement, the Indemnified Party shall assign to the Indemnifying Party, and the Indemnifying Party shall become subrogated to, all rights, Claims, and causes of action of the Indemnified Party against Third Parties arising out of or pertaining to the matters for which the Indemnifying Party shall provide indemnification. The amount of the Indemnified Party's Claim for indemnification shall be reduced by the amount of any insurance reimbursement paid to the Indemnified Party pertaining to the Claim without prejudice to any rights of subrogation granted to the provider of such insurance.

21. SECURITY FOR PERFORMANCE OF OBLIGATIONS

21.1. Guarantee. The payment obligations of Seller arising under this Agreement shall be guaranteed by the Guarantor pursuant to the Guarantee. At the Closing, Purchaser shall cause the executed Guarantee to be delivered to the Trustee.

21.2. Customer Insurance Policy. At the Closing, Purchaser shall cause the Customer Insurance Policy to be delivered to the Trustee by Financial Security Assurance Inc.

21.3. Funding Agreement. At the Closing, Purchaser shall cause an executed counterpart of the Funding Agreement to be delivered to the Trustee.

22. CLOSING; CONDITIONS PRECEDENT TO CLOSING

22.1. Closing. As a condition to each party's obligation to perform under this Agreement, the conditions specified in Sections 22.2 and 22.3 shall be met to the satisfaction of the applicable party (such Satisfaction being referred to as the "***Closing***"). The Closing shall take place in the offices of Orrick, Herrington & Sutcliffe LLP in Los Angeles, California, or at such other place or places as the parties may agree. Seller and Purchaser shall deliver or cause to be delivered the documents to be delivered by such party as set forth in Sections 22.2 and 22.3, and Seller and Purchaser shall execute such other documents and instruments, and take such other actions, as are necessary to allow the parties to perform their obligations under this Agreement.

22.2. Seller's Conditions Precedent. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to each of the following conditions (none of which shall constitute a warranty or representation):

22.2.1. Purchaser shall have substantially performed and complied with all material terms of this Agreement required to be performed or complied with by Purchaser prior

to Closing, and all of the representations and warranties made by Purchaser under this Agreement shall be true and correct in all material respects on and as of the Closing.

22.2.2. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending (i.e., as to which Purchaser has received service of process) or, to the knowledge of Purchaser, threatened against Purchaser challenging the legality, validity or enforceability of this Agreement or seeking to restrain, prohibit or invalidate any of the transactions contemplated by this Agreement, or which, if determined adversely to Purchaser, would materially adversely affect its ability to perform its obligations under this Agreement, other than an action or proceeding instituted or threatened by Seller.

22.2.3. Purchaser shall have delivered to Seller a certificate of an authorized officer of Purchaser, dated the date of Closing, certifying on behalf of Purchaser that the conditions set forth in Section 22.2.1 and Section 22.2.2 have been fulfilled.

22.2.4. Purchaser shall have delivered to Seller any document required or reasonably requested to allow Seller to make payments under this Agreement without any deduction or withholding for or on the account of any Tax for which an exemption or deduction or withholding is available or with such deduction or withholding at a reduced rate is available.

22.2.5. Purchaser shall have delivered to Seller a Certificate of Authority, Incumbency and Specimen Signatures and certified copies of resolutions adopted by the Board of Directors, or relevant committee of the Board of Directors, of Purchaser, authorizing the execution, delivery and performance of this Agreement.

22.2.6. Purchaser shall have delivered to Seller an opinion of counsel in form and substance acceptable to Seller, addressed to Seller and dated as of the Closing, to the effect that (a) Purchaser is a joint exercise of powers agency and public entity of the State of California; (b) the execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite action on the part of Purchaser; (c) this Agreement has been properly and duly executed and delivered on behalf of Purchaser and constitutes the valid and binding obligation of Purchaser, subject, however, to the effects of bankruptcy, insolvency, moratorium and similar laws from time to time in effect relating to the rights and remedies of creditors, as well as to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law); and (d) Purchaser's obligations under this Agreement shall not be limited, reduced or excused by any defenses which are not available to non-governmental corporations, including without limitation the defense of sovereign immunity. In giving this opinion, Purchaser's counsel may rely upon certificates of governmental officials and of Purchaser's officers as to matters of fact, and may qualify the legal opinion with such other assumptions and exceptions as are reasonably acceptable to Seller under the circumstances.

22.2.7. Seller shall have reviewed and be reasonably satisfied with any requirements and certifications required by Tax Counsel, as described in Section 33.19.

22.2.8. Purchaser shall have delivered to the Trustee the Customer Insurance Policy.

22.2.9. Purchaser shall have delivered to Seller an executed counterpart of the Funding Agreement.

22.2.10. Purchaser shall have delivered to Seller a certified copy of the executed Purchaser Swap Agreement.

22.2.11. Seller shall have received reasonably satisfactory evidence of the availability of the Prepayment.

22.3. Purchaser's Conditions Precedent. The obligations of Purchaser to consummate the transactions contemplated by this Agreement are subject to each of the following conditions (none of which shall constitute a warranty or representation):

22.3.1. Seller shall have substantially performed and complied with all material terms of this Agreement required to be performed or complied with by Seller prior to Closing, and all of the representations and warranties made by Seller under this Agreement shall be true and correct in all material respects on and as of the Closing.

22.3.2. Guarantor shall have delivered the Guarantee to Purchaser and shall have substantially performed and complied with all material terms thereof, and all representations and warranties by Guarantor thereunder shall be true and correct in all material respects on and as of the Closing.

22.3.3. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending (i.e., as to which Seller has received service of process) or, to the knowledge of Seller, threatened against Seller challenging the legality, validity or enforceability of this Agreement or seeking to restrain, prohibit or invalidate any of the transactions contemplated by this Agreement, or which, if determined adversely to Seller, would materially adversely affect its ability to perform its obligations under this Agreement, other than an action or proceeding instituted or threatened by Purchaser.

22.3.4. Seller shall have delivered to Purchaser a certificate of a duly authorized officer, dated the date of Closing, certifying on behalf of Seller that the conditions set forth in Section 22.3.1 and Section 22.3.3 have been fulfilled.

22.3.5. Seller shall have delivered to Purchaser (a) an opinion of counsel to Seller, in form and substance acceptable to Purchaser addressed to Purchaser dated as of the Closing, to the effect that (i) Seller is a corporation validly existing and in good standing under the laws of the State of Delaware; (ii) the execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action on the part of Seller, and (iii) this Agreement constitutes the legal, valid and binding obligation of Seller, enforceable in accordance with its terms, subject, however, to the effects of bankruptcy, insolvency, moratorium and similar laws from time to time in effect relating to the rights and remedies of creditors, as well as to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law); (b) a

certified resolution or other certified governance document of Seller, evidencing Seller's authorization of the execution, delivery and performance of this Agreement and all associated agreements and instruments; and (c) a closing certificate executed by a duly authorized officer of Seller in a form reasonably requested by Purchaser and its counsel. In giving the above-described legal opinion, Seller's counsel may rely upon certificates of Seller's officers as to matters of fact, and may qualify such legal opinion with such other assumptions and exceptions as are reasonably acceptable to Purchaser under the circumstances.

22.3.6. Guarantor shall have delivered to Purchaser (a) an opinion of counsel to Guarantor, in form and substance acceptable to Purchaser, addressed to Purchaser and dated as of the Closing, to the effect that (i) Guarantor is a corporation validly existing and in good standing under the laws of the State of Delaware; (ii) Guarantor has the power to execute, deliver and perform the Guarantee; (iii) the execution, delivery and performance of the Guarantee have been duly and validly authorized by all requisite corporate action on the part of Guarantor; and (iv) the Guarantee is enforceable in accordance with its terms and (b) a certified resolution or other certified governance document of Guarantor, evidencing Guarantor's authorization of the execution, delivery and performance of the Guarantee. In giving the above-described legal opinion, Seller's counsel may rely upon certificates of Seller's officers as to matters of fact, and may qualify such legal opinion with such other assumptions and exceptions as are reasonably acceptable to Purchaser under the circumstances.

22.3.7. Seller shall have delivered to Purchaser an executed counterpart of the Funding Agreement.

22.3.8. Seller shall have delivered to Purchaser a certified copy of the executed Seller Swap Agreement.

22.3.9. Purchaser shall have issued and sold the Bonds in an amount sufficient to consummate the transactions contemplated by the Indenture.

22.4. Termination Prior to Closing.

22.4.1. Notwithstanding anything in this Agreement to the contrary, this Agreement and the transactions contemplated hereby may be terminated at any time prior to the Closing .

(a) By mutual consent of the parties;

(b) By either party if the Closing shall not have occurred by May 1, 2007;

(c) By Seller, at Seller's option, in the event that any of the conditions set forth in Section 22.2 have not been satisfied at the time of Closing as provided therein; or

(d) By Purchaser, at Purchaser's option, in the event that any of the conditions set forth in Section 22.3 have not been satisfied at the time of Closing as provided therein.

22.4.2. Neither party shall exercise any right of termination pursuant to Section 24.4.1 if the event giving rise to such termination right shall be due to the willful failure

of such party to perform or observe in any material respect of the covenants or agreements set forth herein to be performed or observed by such party.

22.4.3. If this Agreement is terminated pursuant to Section 24.1.1, this Agreement shall become void and of no further force or effect, and such termination shall be without liability of or to either party.

23. REPRESENTATIONS AND WARRANTIES

23.1. Representations and Warranties by Seller. Seller hereby represents and warrants to Purchaser as of the date of this Agreement:

23.1.1. Seller is a non-bank corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Seller has the power and authority to own its property and to carry on its business as now conducted and to enter into and to carry out the terms of this Agreement.

23.1.2. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary board, shareholder or other action on behalf of Seller, and Seller is not subject to any charter, bylaw, lien or encumbrance of any kind, or any agreement, instrument, order or decree of any court or governmental body which would prevent the consummation of the transactions contemplated by this Agreement. The execution and performance of this Agreement by Seller do not or will not violate any statute, ordinance or governmental rule or regulation applicable to Seller, or result in a breach or constitute a default under any indenture or agreement to which Seller is a party or by which it or its properties may be bound, which could have a material adverse effect on Seller's ability to perform its obligations under this Agreement. This Agreement constitutes the legal, valid and binding obligation of Seller enforceable in accordance with its terms, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect relating to the rights and remedies of creditors, as well as to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law).

23.1.3. Neither Seller nor any Affiliate of Seller has employed any investment banker, broker or finder that would be owed a fee in connection with the transactions contemplated by this Agreement, nor has it taken any action which would give rise to a valid claim against any party hereto for a brokerage commission, finder's fee or other like payment that has not been paid.

23.1.4. No consent, approval, permit, license or authorization of any governmental body is required in connection with the execution, delivery and performance of this Agreement by Seller that has not been obtained.

23.1.5. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending (i.e., as to which Seller has received service of process) or, to the knowledge of Seller, threatened against Seller challenging the legality, validity or enforceability of this Agreement or seeking to restrain, prohibit or invalidate any of the transactions contemplated by this Agreement, or which, if determined

adversely to Seller, would materially adversely affect its ability to perform its obligations under this Agreement, other than an action or proceeding instituted or threatened by Purchaser.

23.1.6. Seller has no material liabilities that would have a material adverse effect upon its ability to perform its obligations under this Agreement.

23.1.7. No event has occurred and is continuing which, with passage of time or the giving of notice, or both, would constitute a Triggering Event under Section 25.

23.1.8. Seller has the right to sell to Purchaser the Gas to be delivered hereunder, and at the time of delivery of Gas hereunder Seller shall have clear title to such Gas and all such Gas shall be free from any and all liens, encumbrances and adverse claims of any nature.

23.1.9. Seller will treat the Prepayment as a prepayment for natural gas for United States federal income tax purposes and not as a production payment within the meaning of Section 636 of the Internal Revenue Code of 1986, or as a loan or deposit.

23.2. Representations of Purchaser. Purchaser hereby makes the following representations and warranties to Seller:

23.2.1. Purchaser is a joint exercise of powers agency and public entity of the State of California, duly established and existing under the laws of the State of California and has the power and authority to own its property and to carry on its business as now conducted and to enter into and to carry out the terms of this Agreement, including the purchase of the Gas purchased hereunder.

23.2.2. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate, member, voter, governmental agency or other action on behalf of Purchaser, and Purchaser is not subject to any statute, bylaw, lien or encumbrance of any kind, agreement, instrument, order or decree of any court or governmental body which would prevent consummation of the transactions contemplated by this Agreement. The execution and performance of this Agreement by Purchaser do not or will not violate any material statute, ordinance or governmental rule or regulation applicable to Purchaser, or result in a breach or constitute a default under any material indenture or agreement to which Purchaser is a party or by which its properties may be bound. This Agreement constitutes the valid and binding obligation of Purchaser enforceable in accordance with its terms, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect relating to the rights and remedies of creditors, as well as to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law). To the fullest extent permitted by applicable law, Purchaser covenants not to exercise, and waives any right to exercise, any defense not available to non-governmental corporations, including specifically, but without limitation, the defense of sovereign immunity generally available to certain governmental entities.

23.2.3. Except for the underwriter retained by Purchaser in connection with its issuance of the Bonds in connection with its purchase of the Gas hereunder, which underwriter will be compensated from proceeds of the sale thereof, and the financial advisor to

Purchaser in connection with the Bonds and this Agreement which financial advisor is being compensated by Municipality, neither Purchaser nor any Affiliate of Purchaser has employed any investment banker, broker or finder that would be owed a fee in connection with the transactions contemplated by this Agreement nor has it taken any action which would give rise to a valid claim against Seller hereto for a brokerage commission, finder's fee or other like payment that has not been paid.

23.2.4. No consent, approval, permit, license or authorization of any governmental body or the voting public is required in connection with the execution, delivery and performance of this Agreement by Purchaser that has not been obtained.

23.2.5. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending (i.e., as to which Purchaser has received service of process) or, to the knowledge of Purchaser, threatened against Purchaser challenging the legality, validity or enforceability of this Agreement or seeking to restrain, prohibit or invalidate any of the transactions contemplated by this Agreement, or which, if determined adversely to Purchaser, would materially adversely affect its ability to perform its obligations under this Agreement, other than an action or proceeding instituted or threatened by Seller.

23.2.6. Except for the Supply Agreement, the Indenture, the Bonds, and the agreements and obligations referred to in such documents, Purchaser has no material liabilities that would have a material adverse effect upon its ability to perform its obligations under this Agreement.

23.2.7. No event has occurred and is continuing which, with passage of time or the giving of notice, or both, would constitute a Triggering Event under Section 25.

24. NOTICE

All notices, requests, demands and other communications hereunder shall be in writing except as otherwise noted and shall be delivered personally sent by bonded overnight courier, mailed by U.S. Express Mail or by certified or registered United States mail with all postage fully prepaid, sent by prepaid telegram or sent by facsimile transmission, in each case addressed to the appropriate party at the address for such party shown below or at such other address as such party shall have theretofore designated by written notice delivered to the party giving such notice:

Seller:

MERRILL LYNCH COMMODITIES, INC.
Attn: Legal Department – Gas Contract Administration
20 East Greenway Plaza, Suite 700, Houston, TX 77046
Phone: (713) 544-5102
Fax: (713) 544-1411 or 5551

Purchaser:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
311 Vernon Street
Roseville, CA 95678
Attn: Executive Director
Phone: (916) 774-5320
Fax: (916) 746-1220

While the Supply Agreement is in effect, a copy of each notice relating to the delivery or receipt of Gas hereunder sent to Purchaser shall also be sent to the Municipality at the following address:

CITY OF ROSEVILLE – ROSEVILLE ELECTRIC
2090 Hilltop Circle
Roseville, CA 95747
Attn: Municipality Director
Phone: (916) 774-5602
Fax: (916) 784-3737

Except as otherwise permitted, any notice given in accordance herewith shall be deemed to have been given and received when delivered to the addressee, which delivery may be evidenced by (i) signed receipt of the addressee given to the courier or postal service or telegraph company, or (ii) by confirmed facsimile transmission as provided in the following sentence, as the case may be. Notice by facsimile transmission shall be deemed given and received upon transmission by the notifying party of a faxed notice to the facsimile number set forth above or designated pursuant to this Section 24, with confirmation on the sender's machine of the success of the facsimile transmission.

25. TRIGGERING EVENTS

25.1. Automatic Triggering Events. An automatic Triggering Event shall be deemed to have occurred upon the occurrence of any of the following events:

25.1.1. An early termination occurs under any transaction now existing or hereafter entered into between Seller and a Third Party which is a commodity price swap if such early termination results from either an Event of Default under which Seller is the Defaulting Party or a Termination Event under which Seller is the Affected Party. For purposes of this Section 25.1.1, Event of Default, Defaulting Party, Termination Event and Affected Party shall have the meanings specified in the respective commodity price swaps.

25.1.2. The termination of Purchaser's Swap Agreement for reasons other than Purchaser's default.

25.2. Triggering Event at Option of Purchaser. A Triggering Event shall be deemed to have occurred at the option of Purchaser upon the occurrence of any of the following events:

25.2.1. Seller, and Guarantor on Seller's behalf, fail to pay either: (a) any Gas Payment as invoiced or (b) fail to pay any undisputed amount due hereunder other than a Gas Payment, in each case by 11:00 a.m. on the second Business Day following the applicable Payment Date or if such Payment Date is not a Business Day, on the next succeeding Business Day.

25.2.2. A Bankruptcy Event occurs with respect to Seller or Guarantor.

25.2.3. Any representation or warranty given by Seller shall prove to have been false or misleading when made and such misrepresentation or warranty has had or could reasonably be expected to have a material adverse effect on Seller's ability to perform its obligations under this Agreement related to the delivery of Gas or the making of payments hereunder.

25.2.4. For reasons other than Force Majeure or a Purchaser Receipt Failure, Seller delivers (a) no Gas (other than Replacement Gas deemed delivered by Seller pursuant to Section 5.2) for a period of five (5) consecutive Days for which Gas is required to be delivered, or (b) less than fifty percent (50%) of the Gas required to be delivered on any particular Gas Day (not including Replacement Gas deemed delivered by Seller pursuant to Section 5.2) for ten (10) cumulative Days during any Contract Year during the Term of this Agreement.

25.2.5. The occurrence of an Excess Gas Event. An "***Excess Gas Event***" means that subsequent to the issue date of the Bonds and after a Tax Event has occurred, due to events that occurred (or did not occur) or other changes in expectations, the Gas to be delivered hereunder is no longer required for Qualifying Uses as evidenced exclusively by the following: (i) Purchaser or (while the Supply Agreement is in effect) Municipality is unable to apply the Gas then remaining to be delivered hereunder for a Qualifying Use; and (ii) Seller does not remarket Gas as set forth in Section 8.

25.3. Triggering Event at Option of Seller. A Triggering Event shall be deemed to have occurred at the option of Seller upon the occurrence of any of the following events:

25.3.1. The termination of Purchaser's Swap Agreement due to Purchaser's default.

25.3.2. The termination of Seller's Swap Agreement for reasons other than Seller's default.

26. EARLY TERMINATION DATE

26.1. Right To Establish Early Termination Date. Upon a Triggering Event described in Section 25.1 Purchaser shall, and in the case of a Triggering Event described in Section 25.2 or the occurrence of the circumstances described in Section 17 authorizing the Purchaser to terminate this Agreement Purchaser may but shall not be obligated to, establish a date that is the Early Termination Date and shall promptly provide notice to Seller and Trustee specifying the relevant Triggering Event and the Early Termination Date. Upon a Triggering Event described in Section 25.3, or the occurrence of the circumstances described in Section 17 authorizing the

Seller to terminate this Agreement, Seller may but shall not be obligated to establish a date that is the Early Termination Date and shall promptly provide notice to Purchaser and Trustee specifying the relevant Triggering Event and the Early Termination Date. In any case, the termination date so established pursuant to Section 26 shall be referred to as the "***Early Termination Date***", and the Term of this Agreement shall cease on the Early Termination Date.

26.2. Early Termination Date. If the notice of an Early Termination Date is delivered pursuant to Section 26.1 on or before the sixth (6th) Day preceding the end of a Month, the Early Termination Date shall be the last day of the Month in which such notice is delivered. If the notice of an Early Termination Date is delivered pursuant to Section 26.1 after the sixth (6th) Day preceding the end of a Month, or the provisions of Section 27.3 apply, the Early Termination Date shall be the last day of the Month next following the Month in which such notice is delivered unless the party providing such notice shall elect that the Early Termination Date shall be the last Day of the Month in which such notice is delivered, in which case the Early Termination Date shall be the last Day of the Month in which such notice is delivered.

27. PAYMENTS ON EARLY TERMINATION

27.1. Accrued Amounts. Within two (2) Business Days following the Early Termination Date, each party will submit to the other and the Trustee an invoice specifying any and all amounts known to be owed to it (and, with respect to payments other than Gas Payments, not disputed pursuant to Section 18) by the other party under the terms of this Agreement, whether or not such amounts are otherwise then due and payable, including without limitation (a) invoiced amounts, and (b) uninvoiced amounts and/or amounts payable for physical deliveries or settlements that occurred prior to the Early Termination Date, and the applicable party shall pay the amount so specified as provided in Section 18.2. The provisions of Section 33.17 apply to the settlement of amounts due hereunder which a party becomes aware of after sending the invoice required by this Section 27.1. Interest shall accrue in the manner described in Section 18.4 from the Payment Date on any amounts owed under this Section 27.1 that are not already accruing interest in the manner described in Section 18.4.

27.2. Termination Amount and Unearned Amount. With respect to Triggering Events described in Section 25.1.1 or Section 25.2, or a notice of termination by Seller pursuant to Section 17, within two (2) Business Days following the Early Termination Date, Seller will deposit the Termination Amount with the Trustee for deposit in the Termination Redemption Fund and the Unearned Amount with Purchaser for deposit in the Operating Fund.

27.3. Remarketing Proceeds and Termination Amount. With respect to Triggering Events described in Section 25.1.2 and Section 25.3, or a notice of termination by Purchaser pursuant to Section 17, Seller shall deliver to Purchaser, and Purchaser shall take delivery of, an amount of Gas with a value equal to the Termination Amount at such Delivery Point or Delivery Points as shall be designated by Seller. Seller shall then immediately remarket such Gas on behalf of Purchaser. Seller shall not be obligated to acquire, deliver and remarket Gas pursuant to this Section 27.3 if Seller determines, in its sole judgment, that such acquisition, delivery and/or remarketing would adversely affect the market price for Gas at any Delivery Point or Points for such Gas. In all events, within two (2) Business Days following the Early Termination Date, Seller will deposit with the Trustee the amount, if any, received from the remarketing of

Gas pursuant to this Section 27.3 plus the positive difference, if any, obtained by deducting such amount from the Termination Amount.

27.4. Manner of Payment. Except as to the timing of payments pursuant to Section 27.2 and Section 27.3, all payments required by this Section 27 shall be made as provided in Section 18.2.

28. LIMITATIONS

FOR BREACH OF ANY PROVISION HEREOF FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY. A PARTY'S LIABILITY HEREUNDER SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED TO THE FULLEST EXTENT PERMITTED BY LAW. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN, A PARTY'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY. SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED TO THE FULLEST EXTENT PERMITTED BY LAW. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE TO THE FULLEST EXTENT PERMITTED BY LAW. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

29. ASSIGNMENT

The terms and provisions of this Agreement shall extend to and be binding upon the parties, their respective heirs, successors, assigns, and legal representatives; provided, however, neither party shall assign this Agreement without the prior written consent of the other party (and any purported assignment without such consents shall be void), except that Purchaser shall be permitted to assign its interest herein and in the Guarantee to the Trustee pursuant to the Indenture without the consent of Seller. Whenever an assignment or a transfer of a party's interest in this Agreement requires the written consent of the other party, the assigning or transferring party's assignee or transferee shall expressly assume, in writing, the duties and obligations under this Agreement of the assigning or transferring party, and upon such

assignment or transfer and assumption of the duties and obligations, the assigning or transferring party shall furnish or cause to be furnished to the other party a true and correct copy of such assignment or transfer and assumption of duties and obligations. Upon furnishing such copy, the assigning or transferring party shall be relieved of all of its obligations hereunder to be performed.

30. SOURCE OF PURCHASER'S PAYMENTS

Purchaser shall make the payments required of it by this Agreement solely from (a) payments made by Municipality to or for the benefit of Purchaser pursuant to the Supply Agreement; (b) payments made to or for the benefit of Purchaser pursuant to the Customer Insurance Policy; and (c) amounts on deposit in the Operating Fund (as such term is defined in the Indenture), to the extent such amounts are available therefor under the Indenture.

31. MARKET DISRUPTION

If a Market Disruption Event has occurred with respect to a price index that is referenced both in this Agreement and in the Swap Agreement then the replacement price shall be determined in accordance with the market disruption procedures set forth in the Swap Agreement. If a Market Disruption Event has occurred with respect to a price index that is not referenced in the Swap Agreement, the parties shall negotiate in good faith to agree on a replacement price (or a method for determining the price at issue), and if the parties have not so agreed on or before the 14th Business Day following the first trading day on which the Market Disruption Event occurred or existed, then the replacement price shall be determined by the majority of a panel of three independent dealers in the Gas market or other recognized experts in the field of pricing natural gas. The parties shall each select one dealer or other expert and the two dealers or other experts selected by the parties shall mutually agree on the third dealer or expert.

32. PRICE CORRECTION

For purposes of determining the relevant prices for any Gas Day, if the Index Price published is corrected no later than 30 Days after the original publication and the correction is published or announced by the person responsible for that publication or announcement, either party may notify the other party (a) of that correction and (b) the amount (if any) that is payable as a result of that correction. If a party gives notice that an amount is so payable, the party that originally either received or retained such amount will, not later than three (3) Business Days after the effectiveness of that notice, pay, subject to any applicable conditions precedent, to the other party that amount, together with interest at the Prime Rate for the period from and including the Day on which payment originally was (or was not) made to but excluding the Day of payment of the refund or payment resulting from that correction.

33. MISCELLANEOUS

33.1. Severability. If any article, section, term, or provision of this Agreement becomes or is declared to be illegal, invalid, void or unenforceable by any court having jurisdiction, such determination shall not invalidate, void, or make unenforceable any other article, section, term, provision, agreement or covenant of this Agreement.

33.2. Waivers. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.

33.3. Regulatory Authorities. This Agreement shall be subject to all valid applicable state, federal and local laws, rules and regulations; provided, that either party hereto shall be entitled to regard all laws, rules and regulations issued by any federal or state regulatory body as valid and may act in accordance therewith until such time as the same may be held invalid by final judgment in a court of competent jurisdiction. Nothing herein shall be taken to preclude Purchaser or Seller or both from contesting the validity of any such law(s), rule(s) or regulation(s).

33.4. Entirety of Agreement. This Agreement, including the Exhibits hereto, sets forth all understandings between the parties respecting the subject matter hereof, and supersedes any and all prior negotiations, contracts, understandings and representations, whether oral or written, relating to the matters covered by this Agreement. Except as provided in Section 29, this Agreement is for the benefit of Seller and Purchaser only and not for the benefit of Third Parties.

33.5. Amendment. Unless otherwise provided herein, no modification, amendment, or other change to this Agreement or the Exhibits will be binding on any party unless consented to in writing by both parties, which consent may be granted or withheld in the sole discretion of such party.

33.6. Choice of Law. The interpretation and performance of this Agreement shall be governed by the laws of the State of New York without reference to the conflict of laws principles therein. Notwithstanding the foregoing, the parties agree that matters relating to the powers, authority and capacity of Purchaser shall be governed by the laws of the State of California.

33.7. Waiver of Jury Trial. EACH PARTY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING RELATING TO THIS AGREEMENT. EACH PARTY CERTIFIES THAT THE OTHER PARTY HAS NOT REPRESENTED THAT IT WOULD NOT ENFORCE THE FOREGOING WAIVER OF JURY TRIAL IF A DISPUTE ARISES. EACH PARTY ACKNOWLEDGES THAT THE OTHER PARTY HAS RELIED ON THE FOREGOING WAIVER OF JURY TRIAL IN ENTERING INTO THIS AGREEMENT.

33.8. Headings. The headings and subheadings contained in this Agreement are used solely for convenience and do not constitute a part of this Agreement and shall not be used to construe or interpret the provisions of this Agreement.

33.9. Computations. All computations related to prices and indices performed under this Agreement shall be rounded to four (4) decimal places ($0.0000).

33.10. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and each of which shall be deemed an original instrument as against any party who has signed it.

33.11. Additional Documents and Actions. Each party agrees to execute and deliver from time to time such additional documents, and take such additional actions, as may be reasonably required by the other party to effect the purposes of this Agreement.

33.12. No Reliance. In connection with the negotiation of, the entering into, and the confirming of the execution of, this Agreement each party represents and warrants that (a) it is acting as principal (and not as agent or in any other capacity, fiduciary or otherwise); (b) the other party is not acting as a fiduciary or financial or investment advisor for it; (c) it is not relying upon any representations (whether written or oral) of the other party other than the representations expressly set forth in this Agreement; (d) the other party has not given to it (directly or indirectly through any other person) any advice, counsel, assurance, guaranty, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence, or benefit (either legal, regulatory, tax, financial, accounting, or otherwise) of this Agreement; (e) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary, and not upon any view expressed by the other party; (f) all decisions have been the result of arm's length negotiations between the parties; and (g) it is entering into this Agreement with a full understanding of all of the risks hereof and thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

33.13. Preparation. This Agreement was negotiated and prepared by both parties hereto with advice of counsel to the extent deemed necessary by each party, and was not prepared by any party to the exclusion of the other, and, accordingly, should not be construed against either party by reason of its preparation.

33.14. Expenses. Unless otherwise provided herein, each party hereto shall bear and be responsible for all fees, costs and expenses (including, without limitation, legal, accounting and engineering expenses) incurred by such party with respect to the negotiation and consummation of the Agreement (including all ancillary documents) and the transactions described herein.

33.15. Public Announcements. Each party covenants and agrees with the other that, subject to applicable law, each party shall promptly advise and consult with the other and obtain the other's written consent before issuing any press release with respect to this Agreement or the transactions described herein.

33.16. Survival. Upon the expiration or termination of this Agreement, the provisions of Sections 19, 20, 33.12 through 33.15 and Section 33.17, and any other indemnity obligations with respect to events occurring during the Term of this Agreement, shall survive any such expiration and termination and continue in full force and effect. The expiration or termination of this Agreement shall not relieve either party of (a) any unfulfilled obligation or undischarged liability of such party which accrued during the Term of this Agreement or (b) the consequences of any breach or default of any representation, warranty or obligation contained in this Agreement by or on the part of such party occurring during the Term of this Agreement.

33.17. Winding Up Arrangements. Except as otherwise provided herein, upon expiration of the Term, or other termination, of this Agreement, any monies or penalties due and owing either party shall be paid pursuant to the terms hereof, and any corrections or adjustments to payments previously made shall be determined and any refunds due either party shall be made at the earliest possible time, and in any event no later than sixty (60) Days following such expiration or termination. Any Imbalances in receipts or deliveries shall be corrected to zero balance within sixty (60) Days following such expiration or termination.

33.18. Recording Telephone Conversations. The parties agree that each party may electronically record all telephone conversations with respect to this Agreement between their respective employees, without any special or further notice to the other party. Each party shall obtain any necessary consent of its agents and employees to such recording.

33.19. Covenants of the Parties Regarding Federal Tax Issues. Notwithstanding anything herein to the contrary, the parties agree to comply with any certifications made to, or procedures required by, Tax Counsel for the Bonds regarding the sale, delivery, purchase or receipt of Gas pursuant to the terms of this Agreement, the application of any proceeds therefrom, or any related matters; provided that, with respect to Seller, such certifications or procedures are made or required (as applicable) at or prior to the Closing.

33.20. Swap Agreements. In the event the Purchaser Swap Agreement and/or the Seller Swap Agreement is subject to assignment in accordance with its terms in connection with an event of default or a termination event thereunder, the parties shall promptly commence negotiations in good faith in order to cause the assignment of such swap agreement on such terms and conditions as are equitable to each party; provided that any such assignment must be made in compliance with the terms of Section 2.04 and Section 7.11 of the Indenture and must, in the Opinion of Tax Counsel, preserve the Tax-Exempt Status of the Bonds.

33.21. Customer Insurance Policy. Purchaser hereby covenants to use reasonable efforts to enforce its rights under the Customer Insurance Policy.

33.22. Municipality. Purchaser has entered into the Supply Agreement with Municipality pursuant to which Purchaser has sold all of the Gas to be delivered hereunder to Municipality with Municipality taking title to such Gas at the applicable Delivery Points. While the Supply Agreement is in effect, Seller agrees as follows: (a) to accept notices and directions from Municipality, as agent for Purchaser, with respect to the remarketing of Gas and the delivery of Gas to Alternate Delivery Points; (b) that the obtaining of Gas by Municipality to replace Gas that was not delivered under the Supply Agreement as a result of a Seller Delivery Default constitutes the obtaining of Replacement Gas by Purchaser; (c) that any Imbalance Charges incurred in connection with the Gas to be delivered under the Supply Agreement shall be deemed and considered for all purposes of this Agreement to be the incurring of Imbalance Charges by Purchaser with respect to the Gas to be delivered hereunder; (d) to accept nominations by or on behalf of Municipality with respect to the Gas to be delivered under the Supply Agreement to constitute nominations by Purchaser with respect to the Gas to be delivered hereunder; and (e) that the requirements for any notices, reports or calculations by Purchaser with respect to the application of any Gas delivered hereunder shall be deemed satisfied to the extent Municipality provides such notices, reports or calculations with respect to the Gas

delivered under the Supply Agreement. While the Supply Agreement is in effect, Seller may rely on all notices, consents, reports, calculations and other communications from Municipality to Seller with respect to the Gas to be delivered under this Agreement as if such notices, consents, reports, calculations and other communications had been given by Purchaser.

33.23. Supply Agreement. Purchaser shall collect or cause to be collected and forthwith cause to be deposited in the Revenue Fund all amounts payable to it pursuant to the Supply Agreement or otherwise payable to it with respect to the Gas Supply (as defined in the Indenture) or any part thereof. Purchaser shall enforce the provisions of the Supply Agreement, as well as any other contract or contracts entered into relating to the Gas Supply, and duly perform its covenants and agreements thereunder. Purchaser shall promptly exercise its right to suspend or terminate all Gas deliveries under the Supply Agreement if Municipality fails to pay when due any amounts owed to Purchaser thereunder. Purchaser will not consent or agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with the Supply Agreement which will impair the ability of Purchaser to comply during the current or any future year with the provisions of the Indenture; provided that this provision shall not prevent Purchaser from otherwise taking any action under or in connection with the Supply Agreement which is expressly permitted pursuant to the provisions thereof. Purchaser shall cause the Supply Agreement to provide that Seller is an express third-party beneficiary of Purchaser's rights under the Supply Agreement.

A copy of the Supply Agreement certified by an authorized officer of Purchaser shall be filed with Seller, and a copy of each amendment to the Supply Agreement certified by an authorized officer of Purchaser, shall be filed with Seller.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Roseville Natural Gas Financing Authority has caused these presents to be executed on its behalf by its Executive Director and attested by its Secretary, each being thereunto duly authorized, and Merrill Lynch Commodities, Inc. has caused these presents to be executed on its behalf by its duly authorized officer, all as of the day and year first above written.

MERRILL LYNCH COMMODITIES, INC. KLF

By: _____

Name: Richard Jeffris

Title: Managing Director

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____
Executive Director

ATTEST: KLF

By: _____
Asst. Secretary

OHS West:260125156.18
40116-19 EJC/EJC

IN WITNESS WHEREOF, the Roseville Natural Gas Financing Authority has caused these presents to be executed on its behalf by its Executive Director and attested by its Secretary, each being thereunto duly authorized, and Merrill Lynch Commodities, Inc. has caused these presents to be executed on its behalf by its duly authorized officer, all as of the day and year first above written.

MERRILL LYNCH COMMODITIES, INC.

By:_____

Name:_____

Title:_____

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: W. Craig Robinson
Executive Director

ATTEST:

By: _____
for Secretary

EXHIBIT A

FORM OF GUARANTEE

GUARANTEE OF MERRILL LYNCH & CO., INC.

FOR VALUE RECEIVED, receipt of which is hereby acknowledged, MERRILL LYNCH & CO., INC., a corporation duly organized and existing under the laws of the State of Delaware ("ML & CO."), hereby unconditionally guarantees to **Roseville Natural Gas Financing Authority** (the "Company"), the due and punctual payment to the Company or **The Bank of New York Trust Company, N.A.,** as trustee under that certain Trust Indenture, dated as of February 1, 2007, between the Company and The Bank of New York Trust Company, N.A., or any successor trustee under such Trust Indenture ("Company's Trustee") of any and all amounts payable by **Merrill Lynch Commodities, Inc.**, a corporation organized under the laws of the State of Delaware ("MLCI"), its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of ML & Co., under the terms of the **Agreement for the Purchase and Sale of Natural Gas** between the Company and MLCI, dated as of January 24, 2007 (the "Agreement"), including, in case of default, interest on any amount due, when and as the same shall become due and payable, whether on the scheduled payment dates, at maturity, upon declaration of termination or otherwise, according to the terms thereof. Notwithstanding the foregoing, ML&Co. acknowledges that if MLCI merges or consolidates and the surviving entity is not a direct or indirect subsidiary of ML & Co. or if MLCI is sold by a sale of equity or otherwise to an entity that is not a direct or indirect subsidiary of ML & Co., this guaranty shall remain in place for the benefit of the Company and the Company's Trustee. In case of the failure of MLCI punctually to make any such payment, ML & Co. hereby agrees to make such payment, or cause such payment to be made, promptly upon demand made by the Company or Company's Trustee to ML & Co.; provided, however that delay by the Company in giving such demand shall in no event affect ML & Co.'s obligations under this Guarantee. This Guarantee shall remain in full force and effect or shall be reinstated (as the case may be) if at any time any payment guaranteed hereunder, in whole or in part, is rescinded or must otherwise be returned by the Company upon the insolvency, bankruptcy or reorganization of MLCI or otherwise, all as though such payment had not been made.

ML & Co. hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement; the absence of any action to enforce the same; any waiver or consent by the Company concerning any provisions thereof; the rendering of any judgment against MLCI or any action to enforce the same; or any other circumstances that might otherwise constitute a legal or equitable discharge of a guarantor or a defense of a guarantor. ML & Co. covenants that this guarantee will not be discharged except by complete payment of the amounts payable under the Agreement. This Guarantee shall continue to be effective if MLCI merges or consolidates with or into another entity, loses its separate legal identity or ceases to exist.

ML & Co. hereby waives diligence; presentment; protest; notice of protest, acceleration, and dishonor; filing of claims with a court in the event of insolvency or bankruptcy of MLCI; all

demands whatsoever, except as noted in the first paragraph hereof; and any right to require a proceeding first against MLCI.

ML & Co. hereby certifies and warrants that this Guarantee constitutes the valid obligation of ML & Co. and complies with all applicable laws. This Guarantee guarantees only payment obligations of MLCI and does not guarantee the performance of any other obligations of, including, but not limited to, physical delivery or, to the extent applicable, reporting obligations of MLCI. This Guarantee constitutes a guarantee of payment and not of collection.

This Guarantee shall be governed by, and construed in accordance with, the laws of the State of New York.

This Guarantee shall continue in full force and effect, and shall be irrevocable, with respect to any payment obligation of MLCI under the Agreement.

This Guarantee becomes effective concurrent with the effectiveness of the Agreement, according to its terms.

IN WITNESS WHEREOF, ML & Co. has caused this Guarantee to be executed in its corporate name by its duly authorized representative.

MERRILL LYNCH & CO., INC.

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT B

DAILY CONTRACT QUANTITY

Month	Daily Contract Quantity (MMBtu/Day)
January	6,000
February	5,000
March	2,500
April	2,500
May	3,000
June	4,500
July	12,000
August	12,000
September	10,000
October	6,000
November	8,000
December	5,500

EXHIBIT C

SCHEDULE OF TERMINATION AMOUNTS

[See attached.]

Exhibit C – Schedule of Termination Amounts

Early Termination Date	Termination Amount	Early Termination Date	Termination Amount
02/28/2007	$215,861,550.71	10/31/2011	$193,264,933.72
03/31/2007	216,580,394.70	11/30/2011	192,309,216.80
04/30/2007	217,384,958.01	12/31/2011	191,720,370.00
05/31/2007	218,195,317.20	01/31/2012	191,061,360.53
06/30/2007	218,947,577.90	02/29/2012	190,771,069.54
07/31/2007	219,439,841.77	03/31/2012	190,841,556.43
08/31/2007	220,190,843.78	04/30/2012	190,996,964.17
09/30/2007	220,941,525.50	05/31/2012	191,026,849.17
10/31/2007	221,670,889.67	06/30/2012	190,713,865.63
11/30/2007	222,452,736.49	07/31/2012	188,755,692.83
12/31/2007	223,212,360.48	08/31/2012	186,792,338.00
01/31/2008	222,626,183.60	09/30/2012	185,324,291.57
02/29/2008	222,420,546.05	10/31/2012	184,632,109.33
03/31/2008	222,610,822.80	11/30/2012	183,597,812.16
04/30/2008	222,896,898.68	12/31/2012	183,027,740.08
05/31/2008	222,953,308.51	01/31/2013	182,322,942.06
06/30/2008	222,792,126.72	02/28/2013	182,036,269.47
07/31/2008	220,990,612.90	03/31/2013	182,101,362.57
08/31/2008	219,078,161.99	04/30/2013	182,227,270.41
09/30/2008	217,741,458.46	05/31/2013	182,206,271.70
10/31/2008	217,173,468.70	06/30/2013	181,886,752.72
11/30/2008	216,223,879.13	07/31/2013	179,942,765.47
12/31/2008	215,786,302.78	08/31/2013	177,884,669.59
01/31/2009	215,214,832.54	09/30/2013	176,410,522.43
02/28/2009	214,945,401.46	10/31/2013	175,732,849.99
03/31/2009	215,114,013.76	11/30/2013	174,625,236.26
04/30/2009	215,350,296.86	12/31/2013	174,025,421.32
05/31/2009	215,409,399.09	01/31/2014	173,288,694.82
06/30/2009	215,223,622.34	02/28/2014	172,969,305.81
07/31/2009	213,375,607.23	03/31/2014	173,005,561.53
08/31/2009	211,465,520.73	04/30/2014	173,120,963.10
09/30/2009	210,129,371.32	05/31/2014	173,027,512.52
10/31/2009	209,486,760.92	06/30/2014	172,699,520.20
11/30/2009	208,537,861.13	07/31/2014	170,703,064.82
12/31/2009	208,051,826.67	08/31/2014	168,637,292.76
01/31/2010	207,488,843.69	09/30/2014	167,131,363.68
02/28/2010	207,219,894.87	10/31/2014	166,399,047.39
03/31/2010	207,364,727.98	11/30/2014	165,284,758.24
04/30/2010	207,575,687.94	12/31/2014	164,676,185.76
05/31/2010	207,610,333.40	01/31/2015	163,969,447.31
06/30/2010	207,423,707.36	02/28/2015	163,538,340.67
07/31/2010	205,494,347.34	03/31/2015	163,545,003.86
08/31/2010	203,560,231.52	04/30/2015	163,607,838.33
09/30/2010	202,173,754.54	05/31/2015	163,503,666.23
10/31/2010	201,530,097.09	06/30/2015	163,143,316.59
11/30/2010	200,556,513.98	07/31/2015	161,093,501.75
12/31/2010	200,044,122.96	08/31/2015	159,017,329.10
01/31/2011	199,388,183.24	09/30/2015	157,498,064.66
02/28/2011	199,162,688.15	10/31/2015	156,693,758.43
03/31/2011	199,329,484.44	11/30/2015	155,566,183.04
04/30/2011	199,465,379.18	12/31/2015	154,906,463.56
05/31/2011	199,475,819.24	01/31/2016	154,128,768.80
06/30/2011	199,238,331.63	02/29/2016	153,685,266.07
07/31/2011	197,307,047.03	03/31/2016	153,696,966.47
08/31/2011	195,347,972.29	04/30/2016	153,687,245.61
09/30/2011	193,933,160.34	05/31/2016	153,551,630.28

Exhibit C – Schedule of Termination Amounts

Early Termination Date	Termination Amount	Early Termination Date	Termination Amount
06/30/2016	$153,157,447.33	02/28/2021	$98,070,819.50
07/31/2016	151,073,709.93	03/31/2021	97,860,363.33
08/31/2016	148,965,847.57	04/30/2021	97,690,232.31
09/30/2016	147,392,183.38	05/31/2021	97,367,464.29
10/31/2016	146,574,230.45	06/30/2021	96,784,890.79
11/30/2016	145,448,082.12	07/31/2021	94,494,806.84
12/31/2016	144,714,002.79	08/31/2021	92,196,888.34
01/31/2017	143,893,965.83	09/30/2021	90,421,999.64
02/28/2017	143,465,803.59	10/31/2021	89,411,088.57
03/31/2017	143,424,383.27	11/30/2021	88,045,735.56
04/30/2017	143,398,569.11	12/31/2021	87,153,485.59
05/31/2017	143,229,465.05	01/31/2022	86,152,153.74
06/30/2017	142,798,812.94	02/28/2022	85,504,113.35
07/31/2017	140,679,765.25	03/31/2022	85,272,356.04
08/31/2017	138,572,754.51	04/30/2022	85,034,260.07
09/30/2017	136,925,288.16	05/31/2022	84,669,400.35
10/31/2017	136,075,081.72	06/30/2022	84,029,500.24
11/30/2017	134,894,089.61	07/31/2022	81,706,345.34
12/31/2017	134,142,208.69	08/31/2022	79,365,767.94
01/31/2018	133,290,388.48	09/30/2022	77,542,855.11
02/28/2018	132,838,694.62	10/31/2022	76,489,344.84
03/31/2018	132,728,055.03	11/30/2022	75,096,503.87
04/30/2018	132,682,643.62	12/31/2022	74,134,086.41
05/31/2018	132,510,769.73	01/31/2023	73,094,715.39
06/30/2018	132,008,530.22	02/28/2023	72,396,240.93
07/31/2018	129,853,741.50	03/31/2023	72,107,615.84
08/31/2018	127,692,202.87	04/30/2023	71,833,589.04
09/30/2018	126,024,739.42	05/31/2023	71,424,470.62
10/31/2018	125,139,475.91	06/30/2023	70,735,623.96
11/30/2018	123,898,014.26	07/31/2023	68,365,539.84
12/31/2018	123,126,939.84	08/31/2023	65,997,883.09
01/31/2019	122,242,526.13	09/30/2023	64,105,001.96
02/28/2019	121,733,107.27	10/31/2023	63,008,551.73
03/31/2019	121,600,978.50	11/30/2023	61,555,976.53
04/30/2019	121,515,940.80	12/31/2023	60,556,009.99
05/31/2019	121,289,618.80	01/31/2024	59,481,127.12
06/30/2019	120,764,671.67	02/29/2024	58,687,135.20
07/31/2019	118,600,495.43	03/31/2024	58,341,737.48
08/31/2019	116,354,707.04	04/30/2024	58,027,331.07
09/30/2019	114,664,523.58	05/31/2024	57,578,882.35
10/31/2019	113,770,654.70	06/30/2024	56,830,287.22
11/30/2019	112,458,976.69	07/31/2024	54,427,240.89
12/31/2019	111,648,198.11	08/31/2024	51,976,948.51
01/31/2020	110,771,414.16	09/30/2024	50,052,702.95
02/29/2020	110,129,261.92	10/31/2024	48,923,917.38
03/31/2020	109,959,197.15	11/30/2024	47,391,098.09
04/30/2020	109,832,576.58	12/31/2024	46,351,550.09
05/31/2020	109,551,462.84	01/31/2025	45,216,054.99
06/30/2020	109,000,162.62	02/28/2025	44,408,882.56
07/31/2020	106,765,403.71	03/31/2025	44,014,493.67
08/31/2020	104,507,914.28	04/30/2025	43,653,543.76
09/30/2020	102,789,622.51	05/31/2025	43,141,712.25
10/31/2020	101,808,740.92	06/30/2025	42,348,962.65
11/30/2020	100,486,755.30	07/31/2025	39,886,053.64
12/31/2020	99,638,193.30	08/31/2025	37,393,807.53
01/31/2021	98,706,077.70	09/30/2025	35,415,749.58

Exhibit C – Schedule of Termination Amounts

Early Termination Date	Termination Amount
10/31/2025	$34,224,749.27
11/30/2025	32,650,243.43
12/31/2025	31,565,914.72
01/31/2026	30,391,233.95
02/28/2026	29,510,791.29
03/31/2026	29,065,877.26
04/30/2026	28,644,672.28
05/31/2026	28,086,221.78
06/30/2026	27,238,275.57
07/31/2026	24,715,984.37
08/31/2026	22,176,346.17
09/30/2026	20,147,483.76
10/31/2026	18,892,453.09
11/30/2026	17,266,935.37
12/31/2026	16,124,113.99
01/31/2027	14,894,818.56
02/28/2027	13,962,376.25
03/31/2027	13,464,061.52
04/30/2027	12,985,203.15
05/31/2027	12,372,255.23
06/30/2027	11,468,669.70
07/31/2027	8,886,071.30
08/31/2027	6,293,462.97
09/30/2027	4,203,339.49
10/31/2027	2,894,882.67
11/30/2027	1,211,968.93
12/31/2027	11,490.76

GUARANTEE OF MERRILL LYNCH & CO., INC.

FOR VALUE RECEIVED, receipt of which is hereby acknowledged, MERRILL LYNCH & CO., INC., a corporation duly organized and existing under the laws of the State of Delaware ("ML & CO."), hereby unconditionally guarantees to **Roseville Natural Gas Financing Authority** (the "Company"), the due and punctual payment to the Company or **The Bank of New York Trust Company, N.A.** ("Company's Trustee") of any and all amounts payable by **Merrill Lynch Commodities, Inc.**, a corporation organized under the laws of the State of Delaware ("MLCI"), its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of ML & Co., under the terms of the **Agreement for the Purchase and Sale of Natural Gas** between the Company and MLCI, dated as of January 24, 2007 (the "Agreement"), including, in case of default, interest on any amount due, when and as the same shall become due and payable, whether on the scheduled payment dates, at maturity, upon declaration of termination or otherwise, according to the terms thereof. Notwithstanding the foregoing, ML&Co. acknowledges that if MLCI merges or consolidates and the surviving entity is not a direct or indirect subsidiary of ML & Co. or if MLCI is sold by a sale of equity or otherwise to an entity that is not a direct or indirect subsidiary of ML & Co., this guaranty shall remain in place for the benefit of the Company and the Company's Trustee. In case of the failure of MLCI punctually to make any such payment, ML & Co. hereby agrees to make such payment, or cause such payment to be made, promptly upon demand made by the Company or Company's Trustee to ML & Co.; provided, however that delay by the Company in giving such demand shall in no event affect ML & Co.'s obligations under this Guarantee. This Guarantee shall remain in full force and effect or shall be reinstated (as the case may be) if at any time any payment guaranteed hereunder, in whole or in part, is rescinded or must otherwise be returned by the Company upon the insolvency, bankruptcy or reorganization of MLCI or otherwise, all as though such payment had not been made.

ML & Co. hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement; the absence of any action to enforce the same; any waiver or consent by the Company concerning any provisions thereof; the rendering of any judgment against MLCI or any action to enforce the same; or any other circumstances that might otherwise constitute a legal or equitable discharge of a guarantor or a defense of a guarantor. ML & Co. covenants that this guarantee will not be discharged except by complete payment of the amounts payable under the Agreement. This Guarantee shall continue to be effective if MLCI merges or consolidates with or into another entity, loses its separate legal identity or ceases to exist.

ML & Co. hereby waives diligence; presentment; protest; notice of protest, acceleration, and dishonor; filing of claims with a court in the event of insolvency or bankruptcy of MLCI; all demands whatsoever, except as noted in the first paragraph hereof; and any right to require a proceeding first against MLCI.

ML & Co. hereby certifies and warrants that this Guarantee constitutes the valid obligation of ML & Co. and complies with all applicable laws. This Guarantee guarantees only payment obligations of MLCI and does not guarantee the performance of any other obligations of, including, but not limited to, physical delivery or, to the extent applicable, reporting obligations of MLCI. This Guarantee constitutes a guarantee of payment and not of collection.

This Guarantee shall be governed by, and construed in accordance with, the laws of the State of New York.

This Guarantee shall continue in full force and effect, and shall be irrevocable, with respect to any payment obligation of MLCI under the Agreement.

This Guarantee becomes effective concurrent with the effectiveness of the Agreement, according to its terms.

IN WITNESS WHEREOF, ML & Co. has caused this Guarantee to be executed in its corporate name by its duly authorized representative.

MERRILL LYNCH & CO., INC.

By: _____

Name: Patricia Kropiewnicki

Title: Designated Signatory

Date: February 1, 2007

EXECUTION COPY

FUNDING AND ASSIGNMENT AGREEMENT

THIS FUNDING AND ASSIGNMENT AGREEMENT (**"*Agreement*"**), entered into as of the 24th day of January, 2007, by and between **MERRILL LYNCH COMMODITIES, INC.** (**"*MLCI*"**) and **ROSEVILLE NATURAL GAS FINANCING AUTHORITY** (**"*RNFGA*"**),

WITNESSETH

WHEREAS, RNFGA and MLCI have entered into that certain Agreement for Purchase and Sale of Natural Gas, dated the date hereof pursuant to which MLCI has sold a supply of natural gas to RNGFA to be delivered as provided in the Prepaid Agreement (capitalized terms used herein shall have the meanings given such terms in Section 1 hereof); and

WHEREAS, simultaneously with the execution and delivery hereof, RNFGA is making the Prepayment for the Gas to be delivered under the Prepaid Agreement and is funding the Prepayment with proceeds of the Bonds issued under the Indenture; and

WHEREAS, the financial terms of the Indenture constitute a structured financing in which the scheduled payments required to be made by MLCI under the Prepaid Agreement, the payments required to be made by the Municipality under the Supply Agreement (while in effect), the payments required to be made by Financial Security Assurance Inc. under the Customer Insurance Policy (in the event Municipality fails to make a gas payment under the Supply Agreement), the payments required to be made by the Swap Counterparty under the Purchaser Swap Agreement and the payments required to be made by the Qualified Provider under its Forward Purchase Agreement, in the aggregate, will be sufficient to provide the funds necessary to make the payments scheduled to be made from the Funds; and

WHEREAS, MLCI has agreed to make Mandatory Advances to cure Covered Swap Deficiencies and Covered Termination Deficiencies, and to consider making one or more Optional Advances to cure Covered General Deficiencies, on the terms and conditions herein provided; and

WHEREAS, in consideration of MLCI's making Advances hereunder to cure a Covered Deficiency, RNGFA has agreed to assign to MLCI all of RNGFA's rights against each Responsible Party under the Relevant Agreement with respect to the defaulted payment which caused a Covered Termination Deficiency or Covered General Deficiency on the terms and conditions herein provided;

NOW, THEREFORE, in consideration of the foregoing premises and the covenants contained herein, the parties agree as follows:

SECTION 1. DEFINITIONS. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Prepaid Agreement. The following terms shall have the following meanings for all purposes of this Agreement.

"***Advance***" means an advance hereunder by MLCI to the Trustee of sufficient funds to cure a Covered Deficiency.

"***Contract Rights***" means, with respect to a Payment Default, all of RNGFA's rights against the Responsible Party under the Relevant Agreement with respect to such Payment Default.

"***Covered Deficiency***" mean each of the following: a Covered Termination Deficiency, a Covered General Deficiency, and a Covered Swap Deficiency.

"***Covered General Deficiency***" means, as of any date, that the amount on deposit in a Fund is less than the amount required to be on deposit in such Fund as of such date pursuant to the Indenture but excluding a Covered Termination Deficiency and a Covered Swap Deficiency.

"***Covered Swap Deficiency***" means, as of any date, that the amount on deposit in the Debt Service Fund is less than the amount required to be on deposit in such Fund as of such date pursuant to the Indenture because RNGFA has failed to receive a regularly scheduled swap payment under the Purchaser Swap Agreement due to the occurrence of (i) a termination event under the Purchaser Swap Agreement where the Swap Counterparty is the affected party or (ii) a RNGFA default under the Purchaser Swap Agreement, and such failure occurs on or after the applicable termination event or event of default but prior to the date on which the Purchaser Swap Agreement is either terminated in accordance with its terms or, if the Purchaser Swap Agreement is assigned in accordance with its terms, the date on which regularly scheduled swap payments by the successor counterparty commence.

"***Covered Termination Deficiency***" means, as of the day which is one day after the Payment Date that follows an Early Termination Date and after the deposit in the Termination Fund of the Termination Amount and the transfer to the Termination Fund of amounts in the Revenue Fund, the Debt Service Fund and the Swap Payment Fund, that the amount on deposit in the Termination Fund is less than the amount sufficient to pay: (i) .the redemption price, including accrued interest, necessary to redeem the Bonds pursuant to the Mandatory Redemption on the Mandatory Redemption Date; and (ii) any amount due to the Qualified Provider under the Forward Purchase Agreement as a result of the termination of the Forward Purchase Agreement due to the early termination of the Prepaid Gas Agreement, other than a deficiency caused by a payment default by the Swap Counterparty under Section 5(a)(i) of the Purchaser Swap Agreement whether or not any other Swap Counterparty default has occurred under the Purchaser Swap Agreement.

"***Debt Service Fund***" shall have the meaning ascribed in the Indenture.

"***Event of Default***" shall have the meaning ascribed in Section 6 hereof.

"***Forward Purchase Agreement***" shall have the meaning ascribed in the Indenture.

"***Fund***" means any of the Debt Service Fund, the Swap Payment Fund or the Termination Fund.

"***Funding Guarantee***" means that certain Guarantee, dated the date hereof, issued by Merrill Lynch & Co. to RNGFA securing MCLI's payment obligations hereunder.

"***Mandatory Swap Advance***" means an Advance made by MLCI pursuant to Section 3.2 hereof.

"***Mandatory Termination Advance***" means an Advance made by MLCI pursuant to Section 3.1 hereof.

"***Mandatory Redemption***" means a redemption of the outstanding Bonds pursuant to Section 4.01(a) of the Indenture.

"***Mandatory Redemption Date***" means the date on which the Bonds are to be redeemed pursuant to a Mandatory Redemption.

"***Optional Advance***" means an Advance made by MLCI pursuant to Section 3.3 ereof.

"***Payment Default***" means the failure of a Responsible Party to make a payment when due under a Relevant Agreement which failure caused all or a portion of a Covered Termination Deficiency or a Covered General Deficiency.

"***Qualified Provider***" shall have the meaning ascribed in the Indenture.

"***Relevant Agreement***" means an agreement under which a Responsible Party has agreed to make a payment which, pursuant to such agreement or the Indenture, is to be deposited in the Revenue Fund or a Fund, including without limitation the Supply Agreement, the Customer Insurance Policy, the Purchaser Swap Agreement and the Forward Purchase Agreement.

"***Responsible Party***" means a party to a Relevant Agreement whose failure to make a payment thereunder caused all or a portion of a Covered Termination Deficiency or a Covered General Deficiency.

"***Revenue Fund***" shall have the meaning ascribed in the Indenture.

"***Swap Payment Fund***" shall have the meaning ascribed in the Indenture.

"***Term***" shall have the meaning ascribed in Section 2 hereof.

"***Termination Fund***" shall have the meaning ascribed in the Indenture.

SECTION 2. TERM. The term of this Agreement (the "***Term***") shall be co-terminous with the term of the Indenture.

SECTION 3. ADVANCES. MLCI hereby agrees to make Advances to the Trustee from time to time during the Term hereof as necessary and sufficient to cure Covered Deficiencies as follows:

3.1 Mandatory Termination Advance. MLCI is obligated to make a Mandatory Termination Advance to the Trustee, not later than 11:00 a.m. on the day which is one day after MLCI's receipt of notice of a Covered Termination Deficiency from the Trustee (or if such day is not a Business Day, the next succeeding Business Day). The amount of such Mandatory Termination Advance shall be the amount necessary so that the amount on deposit in the Termination Fund on the Mandatory Redemption Date shall be sufficient to pay: (i) the redemption price, including accrued interest, of the Bonds subject to Mandatory Redemption on the Mandatory Redemption Date and (ii) to pay any amount due to the Qualified Provider under the Forward Purchase Agreement relating to the Debt Service Fund established under the Indenture as a result of the termination of such Forward Purchase Agreement due to the termination of the Prepaid Gas Agreement.

3.2 Mandatory Swap Advance. MLCI is obligated to make a Mandatory Advance to the Trustee, not later than 11:00 a.m. on the day which is one day after MLCI's receipt of notice of a Covered Swap Deficiency (or if such day is not a Business Day, the next succeeding

Business Day). The amount of such Mandatory Swap Advance shall be the amount of the regularly scheduled swap payment that would have been made by the Swap Counterparty under the Purchaser Swap Agreement had the Purchaser Swap Agreement not been terminated.

3.3 **Optional Advances.** RNGFA shall include in the Indenture a provision that the Trustee shall give notice to MLCI within two Business Days upon becoming aware that a Covered General Deficiency exists in one or more of the Funds (specifying such Fund or Funds) and specifying the amount necessary to cure such Covered Deficiency. Upon receipt of such notice MLCI may, in its sole discretion, but is not obligated to, make an Optional Advance with respect to such Covered General Deficiency. MLCI shall notify the Trustee and RNGFA of its decision whether or not to make an Optional Advance with respect to such Covered General Deficiency by 11:00 a.m. on the Business Day next following the day of receipt of such notice from the Trustee or RNGFA. If MLCI agrees to make an Optional Advance, MLCI shall make such Optional Advance to the Trustee, by 11:00 a.m. on the second Business Day next following the day of receipt of such notice from the Trustee or RNGFA. The amount of each Optional Advance shall be the amount necessary to cure the Covered General Deficiency so that after the deposit of such Optional Advance in the applicable Fund or Funds the amount on deposit in the Fund or Funds specified in the request for an Optional Advance shall be the amount then required to be on deposit in such Fund or Funds pursuant to the Indenture.

SECTION 4. SUBROGATION AND ASSIGNMENT OF RIGHTS. As the consideration for MLCI's making an Advance, RNGFA agrees that MLCI shall be subrogated to all of RNGFA's Contract Rights with respect to each Payment Default related to such Advance and RNGFA agrees to assign without recourse to MLCI all of RNGFA's Contract Rights with respect to each such Payment Default. The parties acknowledge that there are no Payment Defaults and no RNGFA Contract Rights in connection with Covered Swap Deficiencies and Mandatory Swap Advances. The parties agree that MLCI shall take such Contract Rights with respect to Defaulted Payments as RNGFA may possess at the time of assignment and RNGFA makes no representations or warranties with respect to any Contract Rights, including without limitation any representations as to the ability or obligation of a Responsible Party to pay a Defaulted Payment, the enforceability of any Relevant Agreement or the unavailability to any Responsible Party of any defense, right of setoff or any other right which might excuse payment of a Defaulted Payment. RNGFA shall not be required to institute any legal action or take any

other action to pursue recovery of any Defaulted Payment. RNGFA agrees to execute all documents and instruments approved as to form and substance by counsel to RNGFA and reasonably requested by MLCI to evidence MCI's rights to Contract Rights, Defaulted Payments or to assist MLCI in pursuing enforcement of assigned Contract Rights and payment of the Defaulted Payments; provided, however, that the execution by RNGFA of all such documents and instruments shall be approved by all governmental bodies whose approval counsel to RNGFA deems necessary and RNGFA shall not be required to incur any expenses or incur any obligations not reimbursed or indemnified by MLCI in connection with the review, approval, execution, delivery or use of such documents and instruments.

SECTION 5. FUNDING GUARANTEE. MLCI's payment obligations hereunder shall be guaranteed pursuant to the Funding Guarantee.

SECTION 6. EVENTS OF DEFAULT. For the purposes of this Agreement, a failure by either party to perform or observe any covenant or agreement prescribed in this Agreement, including without limitation the payment of money, and the continuance thereof for one day after receipt of notice of such failure (or if such day is not a Business Day, the next succeeding Business Day) shall constitute an Event of Default under this Agreement.

SECTION 7. REMEDIES. Upon the occurrence of an Event of Default, the non-defaulting party may institute any action at law or in equity, including an action for the payment of money due hereunder, and pursue any other available remedy to recover amounts payable hereunder. The occurrence and continuation of an Event of Default shall not give either party the right to terminate this Agreement prior to the stated Term hereof and no action or remedy upon an Event of Default shall result in the termination of this Agreement prior to the stated Term hereof. Any remedy available hereunder shall be cumulative and concurrent, and may be pursued singly, successively, or together at the sole discretion of the non-defaulting party, and may be exercised as often as occasion thereof shall occur. The failure to exercise any remedy available hereunder shall in no event be construed as a waiver of the right to exercise the same in the event of any subsequent Event of Default, nor shall it be deemed to be a waiver of its right subsequently to commence an action.

SECTION 8. APPLICATION OF ADVANCES. Each Advance made hereunder shall be applied exclusively to curing the Covered Deficiency to which such Advance relates.

SECTION 9. GENERAL PROVISIONS.

9.1 Notices. Any notice required to be given pursuant to the terms and provisions hereof shall be in writing and shall be sent by certified mail, return receipt requested, postage prepaid to RNFGA and to MLCI at their principal places of business as designated hereafter.

MLCI:

MERRILL LYNCH COMMODITIES, INC.

Attn: Legal Department – Gas Contract Administration
20 East Greenway Plaza, Suite 700, Houston, TX 77046

Phone: (713) 544-5102

Fax: (713) 544-1411 or 5551

RNGFA:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

Attn: Executive Director
311 Vernon Street
Roseville, CA 95678

Phone: (916) 774-5320

Fax: (916) 746-1220

Except as otherwise permitted, any notice given in accordance herewith shall be deemed to have been given and received when delivered to the addressee, which delivery may be evidenced by (i) signed receipt of the addressee given to the courier or postal service or telegraph company, or (ii) by confirmed facsimile transmission as provided in the following sentence, as the case may be. Notice by facsimile transmission shall be deemed given and received upon transmission by the notifying party of a faxed notice to the facsimile number set forth above or designated pursuant to this Section, with confirmation on the sender's machine of the success of the facsimile transmission. Notice herein is effective upon receipt.

9.2 Place of Payment of Advances. Advances made hereunder shall be paid to the Trustee by wire of immediately available United States funds at the address specified from time to time by the Trustee in a notice to MLCI.

9.3 **Modifications.** All amendments or modifications to this Agreement shall be mutually agreed to in writing by RNFGA and MLCI. No amendment or modification to this Agreement shall be made without the consent of the Trustee.

9.4 **Non-Assignability.** This Agreement may not be assigned, delegated or transferred by any party without the express written consent of the other party; provided, however, that the following assignments made be made without such consent: (i) MLCI may assign in whole, its rights under this Agreement to any entity which is controlled by the MLCI if its payment obligations hereunder are covered by the Funding Guarantee; and (ii) RNGFA may assign its rights under this Agreement to the Trustee.

9.5 **Successors and Assigns.** This Agreement shall inure to the benefit of and be binding upon the successors of each party and permitted assigns. The provisions of this Agreement are intended to be for the benefit of the Trustee on behalf of the owners of the Bonds and shall be enforceable by the Trustee, whether or not RNFGA has expressly assigned such rights to the Trustee.

9.6 **Governing Law.** This Agreement shall be governed in all respects by the laws of the State of New York; provided, however, that the powers of RNGFA shall be governed by the laws of the State of California.

9.7 **Severance of Invalid Provisions.** If any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future laws effective during the terms hereof, such provision shall be fully severable. The Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never compromised a part hereof, and the remaining provisions shall remain in full force and effect unaffected by such severance, provided that the purpose of this Agreement can be achieved absent such provision.

9.8 **Section Titles.** The titles of the Sections have been inserted as a matter of convenience and reference only and shall not control or affect the meaning or construction of this Agreement.

9.9 **Waiver.** The waiver by either party of any breach of any provision of this Agreement shall not be construed as a waiver of any subsequent breach of the same or any other provision. The failure to exercise any right hereunder shall not operate as a waiver of such right. All rights and remedies provided for herein are cumulative.

IN WITNESS WHEREOF, the Roseville Natural Gas Financing Authority has caused these presents to be executed on its behalf by its Executive Director and attested by its Secretary, each being thereunto duly authorized, and Merrill Lynch Commodities, Inc. has caused these presents to be executed on its behalf by its duly authorized officer, each as of the day and year first above written.

MERRILL LYNCH COMMODITIES, INC.

By: _____
Name: Richard Deffeis
Title: Managing Director

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____
Executive Director

ATTEST:

By: _____
Asst. Secretary

IN WITNESS WHEREOF, the Roseville Natural Gas Financing Authority has caused these presents to be executed on its behalf by its Executive Director and attested by its Secretary, each being thereunto duly authorized, and Merrill Lynch Commodities, Inc. has caused these presents to be executed on its behalf by its duly authorized officer, each as of the day and year first above written.

MERRILL LYNCH COMMODITIES, INC.

By:_____
Name:_____
Title:_____

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By:_____
Executive Director

ATTEST:

By:_____
Secretary

GUARANTEE OF MERRILL LYNCH & CO., INC.

FOR VALUE RECEIVED, receipt of which is hereby acknowledged, MERRILL LYNCH & CO., INC., a corporation duly organized and existing under the laws of the State of Delaware ("ML & CO."), hereby unconditionally guarantees to **Roseville Natural Gas Financing Authority** (the "Company"), the due and punctual payment to the Company or **The Bank of New York Trust Company, N.A.** ("Company's Trustee") of any and all amounts payable by **Merrill Lynch Commodities, Inc.**, a corporation organized under the laws of the State of Delaware ("MLCI"), its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of ML & Co., under the terms of the **Funding and Assignment Agreement** between the Company and MLCI, dated as of January 24, 2007 (the "Agreement"), including, in case of default, interest on any amount due, when and as the same shall become due and payable, whether on the scheduled payment dates, at maturity, upon declaration of termination or otherwise, according to the terms thereof. Notwithstanding the foregoing, ML&Co. acknowledges that if MLCI merges or consolidates and the surviving entity is not a direct or indirect subsidiary of ML & Co. or if MLCI is sold by a sale of equity or otherwise to an entity that is not a direct or indirect subsidiary of ML & Co., this guaranty shall remain in place for the benefit of the Company and the Company's Trustee. In case of the failure of MLCI punctually to make any such payment, ML & Co. hereby agrees to make such payment, or cause such payment to be made, promptly upon demand made by the Company or Company's Trustee to ML & Co.; provided, however that delay by the Company in giving such demand shall in no event affect ML & Co.'s obligations under this Guarantee. This Guarantee shall remain in full force and effect or shall be reinstated (as the case may be) if at any time any payment guaranteed hereunder, in whole or in part, is rescinded or must otherwise be returned by the Company upon the insolvency, bankruptcy or reorganization of MLCI or otherwise, all as though such payment had not been made.

ML & Co. hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement; the absence of any action to enforce the same; any waiver or consent by the Company concerning any provisions thereof; the rendering of any judgment against MLCI or any action to enforce the same; or any other circumstances that might otherwise constitute a legal or equitable discharge of a guarantor or a defense of a guarantor. ML & Co. covenants that this guarantee will not be discharged except by complete payment of the amounts payable under the Agreement. This Guarantee shall continue to be effective if MLCI merges or consolidates with or into another entity, loses its separate legal identity or ceases to exist.

ML & Co. hereby waives diligence; presentment; protest; notice of protest, acceleration, and dishonor; filing of claims with a court in the event of insolvency or bankruptcy of MLCI; all demands whatsoever, except as noted in the first paragraph hereof; and any right to require a proceeding first against MLCI.

ML & Co. hereby certifies and warrants that this Guarantee constitutes the valid obligation of ML & Co. and complies with all applicable laws. This Guarantee guarantees only payment obligations of MLCI and does not guarantee the performance of any other obligations of, including, but not limited to, physical delivery or, to the extent applicable, reporting obligations of MLCI. This Guarantee constitutes a guarantee of payment and not of collection.

This Guarantee shall be governed by, and construed in accordance with, the laws of the State of New York.

This Guarantee shall continue in full force and effect, and shall be irrevocable, with respect to any payment obligation of MLCI under the Agreement.

This Guarantee becomes effective concurrent with the effectiveness of the Agreement, according to its terms.

IN WITNESS WHEREOF, ML & Co. has caused this Guarantee to be executed in its corporate name by its duly authorized representative.

MERRILL LYNCH & CO., INC.

By: _____

Name: Patricia Kropiewnicki

Title: Designated Signatory

Date: February 1, 2007

EXECUTION COPY

NATURAL GAS SUPPLY AGREEMENT

BETWEEN

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

as Seller

and

CITY OF ROSEVILLE

as Purchaser

Dated as of February 1, 2007

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EXHIBITS

Exhibit A– Daily Contract Quantity

NATURAL GAS SUPPLY AGREEMENT

THIS AGREEMENT ("***Agreement***"), dated as of February 1, 2007, is entered into between **ROSEVILLE NATURAL GAS FINANCING AUTHORITY**, a joint exercise of powers agency and a public entity of the State of California ("***Seller***") and the City of Roseville, a municipal corporation and chartered city of the State of California ("***Purchaser***"). Seller and Purchaser may be referred to individually in this Agreement from time to time as "a party" or collectively as "the parties."

W I T N E S S E T H:

WHEREAS, Purchaser owns and operates a municipal electric system to provide its inhabitants with electric power; and

WHEREAS, certain electric generating plants to be included in Purchaser's electric system use natural gas as a fuel; and

WHEREAS, Seller was established for the purpose, *inter alia*, of acquiring, financing, and supplying natural gas for Purchaser; and

WHEREAS, Seller has planned and developed a gas supply project under which it will finance the acquisition of Gas (capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Section 1.1 hereof) for resale to Purchaser so as to bring the benefits of secure, reliable and economical natural gas supplies to Purchaser; and

WHEREAS, Seller and Gas Supplier have entered into the Prepaid Gas Agreement, pursuant to which Gas Supplier sold and is obligated to deliver the Prepaid Gas to Seller on the terms and conditions set forth therein; and

WHEREAS, Seller wishes to sell and deliver that portion of the Prepaid Gas which constitutes Contract Gas to Purchaser and Purchaser wishes to buy and receive the Contract Gas from Seller on the terms and conditions set forth in this Agreement;

NOW THEREFORE, in consideration of the mutual agreements and covenants herein set forth, Seller hereby agrees to sell and deliver to Purchaser, and Purchaser hereby agrees to buy and receive from Seller, Gas pursuant to the terms of this Agreement.

1. DEFINITIONS AND CONSTRUCTION

1.1 Definitions. The following terms appearing in this Agreement, shall have the following meanings:

1.1.1 "***Alternate Delivery Point***" means each delivery point for the delivery and receipt of any Contract Gas agreed to by the parties pursuant to Section 11 other than the Primary Delivery Point.

1.1.2 "***Audit***" shall have the meaning ascribed in Section 13.5.1.

1.1.3 "***Bankruptcy Event***" shall be deemed to occur if the party in question (i) files a petition for relief under Title 11 of the United States Code, as amended, and any successor

statute or statutes having substantially the same function or any other insolvency law or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fails to file an answer or other pleading denying the material allegations of any such proceeding filed against it; (ii) takes any corporate action to authorize or effect any of the foregoing actions; (iii) generally fails to pay, or admits in writing its inability to pay, its debts as such debts become due; (iv) shall apply for, seek or consent to, or acquiesce in, the appointment of a custodian, receiver, trustee, examiner, liquidator or similar official for it or for any material portion of its assets; (v) benefits from or is subject to the entry of an order for relief under any bankruptcy or insolvency law; (vi) makes an assignment for the benefit of creditors; (vii) fails, within thirty (30) Days after the commencement of any proceeding against it seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, to have such proceeding dismissed, or to have all orders or proceedings thereunder affecting the operations or the business of the party in question stayed; or (viii) fails, within thirty (30) Days after the appointment, without the consent or acquiescence of the party in question, of any custodian, receiver, trustee, examiner, liquidator or similar official for it or for any material portion of its assets, to have such appointment vacated.

1.1.4 "***Bonds***" means Seller's $209,350,000 aggregate principal amount of Gas Revenue Bonds, Series 2007, issued pursuant to the Indenture.

1.1.5 "***British Thermal Unit***" or "***Btu***" means the amount of energy required to raise the temperature of one (1) pound of water one degree Fahrenheit (1 degree F) at sixty degrees Fahrenheit (60 degrees F) at standard atmospheric and gravitational conditions.

1.1.6 "***Business Day***" means any Day excluding: (1) Saturday, Sunday and any Day on which banks located in the State of California or the State of New York are required or authorized by law or other governmental action to close and (2) any Day on which the New York Mercantile Exchange or the Trustee is closed.

1.1.7 "***Claims***" means any and all claims, demands, actions, causes of action, suits, controversies, losses, judgments, damages, liabilities, costs, expenses, obligations, and deficiencies (including, without limitation, costs of investigation and reasonable attorneys' fees and other costs and expenses incident to the defense of any claim that results in litigation, or the settlement of any claim, or the enforcement of the provisions herein).

1.1.8 "***Contract Gas***" means that portion of the Prepaid Gas to be re-delivered by Seller to Purchaser and received by Purchaser hereunder during the Term of this Agreement.

1.1.9 "***Contract Price***" means, with respect to a Delivery Month, an amount per MMBtu of Gas equal to the Index Price for such Delivery Month less $0.68 per MMBtu or such higher amount per MMBtu of Gas as may be determined pursuant to Section 7.13 of the Indenture which adjustment shall not result in a Contract Price greater than the Index Price.

1.1.10 "***Customer Insurance Policy***" means the financial guaranty insurance policy issued by the Customer Insurance Provider guaranteeing the scheduled payment when due of Contract Price payments payable by Purchaser hereunder.

1.1.11 "***Customer Insurance Provider***" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

1.1.12 "***Daily Contract Quantity***" means the quantity of Contract Gas in MMBtu's required to be delivered by Seller and received by Purchaser on each Gas Day of each Delivery Month during the Term, as set forth in Exhibit A.

1.1.13 "***Day***" means a period of twenty-four consecutive hours, beginning at midnight on a calendar day and ending immediately before midnight on the next succeeding calendar day.

1.1.14 "***Delivery Month***" means a Month in which Contract Gas deliveries and receipts are to be made hereunder.

1.1.15 "***Delivery Period***" means the period from and including the Delivery Start Date to and including December 31, 2027.

1.1.16 "***Delivery Point(s)***" means the Primary Delivery Point and each Alternate Delivery Point.

1.1.17 "***Delivery Start Date***" means January 1, 2008.

1.1.18 "***F.E.R.C.***" means the Federal Energy Regulatory Commission and any successor thereto.

1.1.19 "***Force Majeure***" shall have the meaning ascribed in Section 9.

1.1.20 "***Gas***" means all natural gas, casing head gas and associated gaseous (but not liquid) hydrocarbons.

1.1.21 "***Gas Day***" means a period of twenty-four (24) consecutive hours, beginning at 9:00 a.m. on a calendar day and ending immediately before 9:00 a.m. on the next succeeding calendar day. If, through standardizing business practices in the industry, or for any other reason, either F.E.R.C. or one or more Transporters change the definition of a day as applicable to the delivery of Contract Gas, such change shall apply to the definition of Gas Day in this Agreement; provided that in the event a Transporter changes the definition of a day, the definition of Gas Day herein shall be changed only with respect to Contract Gas delivered through such Transporter.

1.1.22 "***Gas Payments***" means all payments required to be made by Gas Supplier pursuant to Section 5.1, Section 6.1, Section 10.7, Section 27.2 and Section 27.3 of the Prepaid Gas Agreement.

1.1.23 "***Gas Supplier***" means Merrill Lynch Commodities, Inc. and its successors and assigns under the Prepaid Gas Agreement.

1.1.24 "***Imbalance***" shall have the meaning ascribed by Section 10.3.

1.1.25 "***Imbalance Charges***" means, with respect to any Imbalance, any fees, penalties, costs or charges (in cash or in kind) assessed by a Transporter for failure to satisfy the Transporter's balance and/or nomination requirements.

1.1.26 "***Indemnified Party***" shall have the meaning ascribed in 14.2.

1.1.27 "***Indemnity Group***" means, for each party, that party's Affiliates, officers, directors, employees, agents, and representatives.

1.1.28 "***Indemnifying Party***" shall have the meaning ascribed in Section 14.2.

1.1.29 "***Indenture***" means that certain Trust Indenture between Seller and Trustee, dated as of February 1, 2007, pursuant to which Seller has issued the Bonds.

1.1.30 "***Index Price***" means, for each Delivery Month and each Gas Day within a Delivery Month, the first of month index for such Delivery Month stated in U.S. Dollars, published under the heading "Spot Gas Prices; California: PG&E Citygate: avg." as reported by Natural Gas Intelligence in the relevant issue of NGI's Bidweek Survey.

1.1.31 "***Market Disruption Event***" means, with respect to an index, any of the following events: (a) the failure of the index to announce or publish information necessary for determining the applicable index price; (b) the failure of trading to commence or the permanent discontinuation or material suspension of trading in the relevant options contract or commodity on the exchange or market acting as the index; (c) the temporary or permanent discontinuance or unavailability of the index; (d) the temporary or permanent closing of any exchange acting as the index; or (e) a material change in the formula for or the method of determining the applicable index price.

1.1.32 "***Miscellaneous Charges***" means the charges owed to Gas Supplier specified in the Seller Billing Statements pursuant to Section 18.1.2 (c) of the Prepaid Gas Agreement.

1.1.33 "***MMBtu***" means one million (1,000,000) Btus.

1.1.34 "***Month***" or "***Monthly***" means a period beginning at 9:00 a.m. on the first Day of a calendar month and ending immediately preceding 9:00 a.m. on the first Day of the next succeeding calendar month. If, through standardizing business practices in the industry, or for any other reason, either F.E.R.C. or Transporter(s) change the definition of month, such change shall apply to the definition of month in this Agreement; provided that in the event a Transporter changes the definition of a month as applicable to the delivery of Contract Gas, the definition of Month herein shall be changed only with respect to Contract Gas delivered through such Transporter.

1.1.35 "***Non-Qualifying Use***" means a use of Gas for other than a Qualifying Use.

1.1.36 "***Optional Remarket Gas***" shall have the meaning ascribed in Section 8.1 of the Prepaid Gas Agreement.

1.1.37 ***Payment Date***" shall have the meaning ascribed in Section 13.1.2.

1.1.38 "***Prepaid Gas***" means the aggregate amount of Gas to be delivered by Gas Provider and received by Seller under the Prepaid Gas Agreement during the Delivery Period.

1.1.39 "***Prepaid Gas Agreement***" means the Agreement for Purchase and Sale of Natural Gas, dated the date hereof, between Seller and Gas Supplier, as the same may be amended and supplemented.

1.1.40 "***Primary Delivery Point***" means Pacific Gas and Electric Company Citygate.

1.1.41 "***Prime Rate***" shall mean the then current interest rate published in The Wall Street Journal as the prime rate of interest, as it may be adjusted from time to time.

1.1.42 "***Proceeds Subject to Remediation***" shall have the meaning ascribed in the Prepaid Gas Agreement.

1.1.43 "***Purchaser***" means the City of Roseville, a municipal corporation and chartered city of the State of California.

1.1.44 "***Purchaser Statement***" shall have the meaning ascribed in Section 13.1.2.

1.1.45 "***Purchaser Material Default*** " shall have the meaning ascribed in Section 17.2.1.

1.1.46 "***Purchaser Receipt Failure***" means Purchaser's failure on any Gas Day, for any reason other than Force Majeure, to meet its obligation to take delivery at the applicable Delivery Point of the quantity of Contract Gas required to be received at such Delivery Point on such Gas Day from Seller.

1.1.47 "***Qualifying Use***" shall have the meaning ascribed in Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2); provided that the use does not give rise to "private business use" as defined in Treasury Regulation Section 1.141-3; and provided that a Qualifying Use Certificate is provided by the buyer of Gas or electricity.

1.1.48 "***Qualifying Use Certificate***" means a certificate signed by the buyer of Gas or electricity certifying that such Gas or electricity shall be applied to the Qualifying Use identified in such certificate.

1.1.49 "***Receipt Date***" means, with respect to the proceeds of the remarketing of Gas, whether remarketed by Gas Supplier or Purchaser, the date of receipt by Purchaser of such proceeds.

1.1.50 "***Redemption Fund***" shall have the meaning ascribed in the Indenture.

1.1.51 "***Remarketing Notice***" means a written notice to remarket Optional Remarket Gas delivered to Gas Supplier pursuant to Section 8.1 of the Prepaid Gas Agreement specifying (a) the quantity of Gas to be remarketed and (b) the term of such remarketing.

1.1.52 "***Remarketing Price***" means, with respect to the proceeds of the remarketing of Gas, whether remarketed by Gas Supplier or Purchaser, the price at which such Gas is remarketed.

1.1.53 "***Remediation Fund***" means that certain fund so designated and held by Purchaser which is established pursuant to Section 8.1.

1.1.54 "***Remediation Use***" means, with respect to Proceeds Subject to Remediation, any of the following: (a) the purchase of Gas with such Proceeds Subject to Remediation and the sale of such Gas for a Qualifying Use (as evidenced by a Qualifying Use Certificate); (b) the application of Proceeds Subject to Remediation by Purchaser to the purchase of Gas which is used by Purchaser for a Qualified Use or; (c) the application of Proceeds Subject to Remediation to the purchase of electricity in compliance with Treasury Regulation Section 1.148-1(e)(2)(iii)(B)(2).

1.1.55 "***Replacement Gas***" means any Gas acquired by Purchaser to replace Contract Gas as to which there has been a Seller Delivery Default, including any such Gas for which a cash out price is charged by any Transporter, and as to which Gas Supplier has made a payment as provided in Section 5.1.1 of the Prepaid Gas Agreement.

1.1.56 "***Responsible Party***" shall have the meaning ascribed in Section 10.3.

1.1.57 "***Retention Notice***" shall have the meaning ascribed in the Prepaid Gas Agreement.

1.1.58 "***Revenue Fund***" shall have the meaning ascribed in the Indenture.

1.1.59 "***Rule***" shall have the meaning ascribed in Section 22.23.

1.1.60 "***Seller Billing Statement***" shall have the meaning ascribed in Section 18.1.2 of the Prepaid Gas Agreement.

1.1.61 ***"Seller Delivery Default"*** means the Seller's failure on any Gas Day, for any reason other than Force Majeure, to deliver to the applicable Delivery Point the quantity of Contract Gas required to be delivered to such Delivery Point on such Gas Day pursuant to this Agreement.

1.1.62 "***Tax Counsel***" means an attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds, and the exclusion from gross income of interest on municipal bonds for federal income tax purposes, selected by Seller.

1.1.63 "***Taxes***" means any and all ad valorem, property, severance, pipeline, utility, sales, use, environmental, and other taxes, governmental charges and fees imposed by federal, state or local government entities on or in connection with the severance, processing, transportation, sale and purchase of Gas, but shall exclude all taxes based on net income, net worth and all franchise, license and similar taxes based on income or otherwise required for the maintenance of corporate existence.

1.1.64 "***Tax-Exempt Status of the Bonds***" shall mean that the status of the Bonds is such that interest on the Bonds is excluded from gross income for federal income tax

purposes and is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations, with the exception that, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings.

1.1.65 "***Term***" shall have the meaning ascribed in Section 2.

1.1.66 ***"Third Party"*** means any person other than Purchaser, any Affiliate of Purchaser, Seller or any Affiliate of Seller.

1.1.67 "***Transporter(s)***" means all gas pipeline companies, or local distribution companies, acting in the capacity of a transporter, transporting Gas for Seller or Purchaser upstream or downstream, respectively, of the Delivery Point for any Gas delivered hereunder and includes any person receiving said Gas at its Delivery Point.

1.1.68 "***Trustee***" means The Bank of New York Trust Company, N.A., as trustee under the indenture, and any successor trustee under the Indenture.

1.2 References and Construction.

1.2.1 References. Other terms are elsewhere defined in this Agreement and shall, for purposes of this Agreement, have the meanings so specified unless expressly indicated otherwise. The words "*hereof*," "*herein*," and "*hereunder*," and words of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement. The terms "*Article*," "*Section*," "*Exhibit*," and like references refer to such portions of this Agreement unless otherwise specified. Each Exhibit attached hereto is made a part hereof for all purposes. The term "person, " in addition to natural persons, shall include firms, associations, trusts, corporations, partnerships, as well governments, government agencies and political subdivisions of governments. Except where the context otherwise requires, words of any gender shall include correlative words of the other genders and words importing the singular number shall include the plural number and vice versa. Unless otherwise defined or the context otherwise requires, terms for which meanings are provided in this Agreement shall have such meanings when used in each notice or other communication delivered or given from time to time under or in connection with this Agreement.

1.2.2 Time. Unless otherwise specified, any reference in this Agreement to time shall refer to the then prevailing Central Time.

1.2.3 Seller Shall Cause Gas Supplier. The phrase "Seller shall cause the Gas Supplier" to take any action, or any similar phrase herein means: (i) that the Gas Supplier has agreed to take such action in the Prepaid Gas Agreement; and (ii) that the Prepaid Gas Agreement provides that any notices to the Gas Supplier, or the satisfaction of any other conditions, which are required under the Prepaid Gas Agreement precedent to the Gas Supplier's obligations to take such action, may be given or made, as applicable, by Purchaser, either directly or through an intermediary. Any failure by Purchaser to give timely notice or to otherwise properly satisfy a condition precedent to the Gas Supplier's obligation to take an action shall not be considered a failure of the Seller to cause the Gas Supplier to take such action for purposes of this Agreement. In the event the Gas Supplier fails to take any action under the Prepaid Gas Agreement as to which Seller is to cause the Gas Supplier to take pursuant to this

Agreement, Seller hereby authorizes Purchaser to pursue whatever remedy is available to Seller under the Prepaid Gas Agreement in connection with such failure.

1.2.4 Delegation of Rights under Prepaid Gas Agreement. Each delegation of, or authorization to exercise, any of Seller's rights under the Prepaid Gas Agreement which are granted pursuant to this Agreement shall terminate at the end of the Term of this Agreement. Seller's obligations hereunder to cause Gas Supplier to pay to Purchaser, or to credit to Purchaser's account, the Remarketing Price of Gas remarketed by Gas Supplier pursuant to the Prepaid Gas Agreement shall relate only to Gas remarketed during the Term of this Agreement for which Purchaser is responsible to pay the Contract Price.

1.2.5 Gas Delivered Under this Agreement. The phrase "Gas delivered under this Agreement", or any similar phrase herein includes both Gas actually delivered by Seller and received by Purchaser hereunder as well as Gas which is deemed delivered by Seller and received by Purchaser hereunder.

1.2.6 Remarketing by Purchaser. The phrase "remarketing by Purchaser", or any similar phrase herein includes both remarketing directly by Purchaser and remarketing on Purchaser's behalf and request by any person other than the Gas Supplier.

2. TERM

This Agreement shall be effective from the date of execution and, except as provided in Section 22.16, shall continue in effect until December 31, 2027, unless terminated earlier pursuant to the terms of Section 17 or Section 22.2 (the ***"Term"***).

3. DELIVERY AND RECEIPT OBLIGATIONS

3.1 General. Beginning on the Delivery Start Date and on each Gas Day thereafter during the remaining Term of this Agreement, Seller shall deliver, or cause to be delivered, and Purchaser shall receive the Daily Contract Quantity pursuant to the terms of this Agreement.

3.2 Purchaser's Postponement. Pursuant to the Prepaid Gas Agreement, Seller has the right at any time to request that the Gas Supplier consider postponing the delivery of a specified portion of the Prepaid Gas on any Gas Day in a Delivery Month to such other Gas Day in such Delivery Month and on such terms as shall be agreed to by Seller and the Gas Supplier (a "***Postponed Delivery Schedule***"). Under the Prepaid Gas Agreement, the Gas Supplier has no obligation to agree to a Postponed Delivery Schedule. To accommodate a desire of Purchaser to delay the delivery of any Daily Contract Quantity, Seller hereby authorizes Purchaser, on Seller's behalf, to exercise Seller's rights to request a Postponed Delivery Schedule under the Prepaid Gas Agreement. If the Gas Supplier agrees to such Postponed Delivery Schedule, then the provisions of Section 3.1 shall be deemed modified so that the corresponding Contract Gas to be delivered hereunder shall be delivered in accordance with the Postponed Delivery Schedule under the Prepaid Gas Agreement and Purchaser shall be liable for the Contract Price for all Contract Gas delivered under such Postponed Delivery Schedule.

3.3 Seller's Postponement. Pursuant to the Prepaid Gas Agreement, the Gas Supplier has the right at any time to request that Seller consider a Postponed Delivery Schedule for the delivery of a specified portion of the Gas on any Gas Day in a Delivery Month to such other Gas

Day in such Delivery Month and on such terms as shall be agreed to by Seller and the Gas Supplier. Under the Prepaid Gas Agreement, Seller has no obligation to agree to the Gas Supplier's request for a Postponed Delivery Schedule. To accommodate a desire of Purchaser to permit the delay of the delivery of any Daily Contract Quantity, Seller hereby authorizes Purchaser, on Seller's behalf, to exercise Seller's rights to grant Gas Supplier's request for a Postponed Delivery Schedule and to determine any terms of such grant. If Purchaser agrees to such Postponed Delivery Schedule, then the provisions of Section 3.1 shall be deemed modified so that the Contract Gas to be delivered hereunder shall be delivered in accordance with the Postponed Delivery Schedule under the Prepaid Gas Agreement and Purchaser shall be liable for the Contract Price for all Contract Gas delivered under such Postponed Delivery Schedule.

4. CONSIDERATION

4.1 Contract Price. For each MMBtu of Contract Gas delivered to Purchaser by Seller at the applicable Delivery Point, Purchaser shall pay Seller the Contract Price for such Gas, which shall be the Index Price for the Month in which the delivery occurs, less $0.68 per MMBtu, unless adjusted pursuant to Section 7.13 of the Indenture which adjustment shall not result in a Contract Price greater than the Index Price. During the Term of this Agreement, each MMBtu of Gas remarketed by Gas Supplier pursuant to Section 8 or Section 6 of the Prepaid Gas Agreement shall be deemed Contract Gas delivered by Seller and received by Purchaser hereunder.

5. SELLER DELIVERY DEFAULT

5.1 Seller Delivery Default. Upon the occurrence of a Seller Delivery Default, the party that first learns of such Seller Delivery Default shall notify the other party and the Gas Supplier of such default promptly by telephone or facsimile transmission; provided that any failure to give such notice, or any delay in giving such notice, shall not affect Purchaser's rights under this Section 5.1. Purchaser shall have no obligation to pay for any of the Contract Gas that was not delivered as a result of a Seller Delivery Default.

5.2 Sole Remedies. Except with respect to the payment of Imbalance Charges pursuant to Section 10.3, the remedies set forth in Section 5 shall be Purchaser's sole and exclusive remedies for any Seller Delivery Default.

6. PURCHASER RECEIPT FAILURE

6.1 Purchaser Receipt Failure. Upon the occurrence of a Purchaser Receipt Failure, the party that first learns of such Purchaser Receipt Failure shall notify the other party and the Gas Supplier of such failure promptly by telephone or facsimile transmission; provided that any failure to give such notice, or any delay in giving such notice, shall not affect Purchaser's rights under this Section 6.1. Notwithstanding a Purchaser Receipt Failure with respect to any portion of the Contract Gas, Purchaser shall be liable for the Contract Price for all Contract Gas as to which there is a Purchaser Receipt Failure. Pursuant to the Prepaid Gas Agreement, upon the failure of Seller to receive any Gas to be delivered thereunder for any reason other than Force Majeure, the Gas Supplier is obligated to make certain payments to Seller. As a Purchaser Receipt Failure hereunder will cause the Gas Supplier to be obligated to make such payments under the Prepaid Gas Agreement, Seller agrees to credit against the Contract Price payments due from Purchaser in any Month with respect to Purchaser Receipt Failures the amount paid by

the Gas Supplier in such Month with respect to Seller's failures to receive any Prepaid Gas to be delivered thereunder in such Month for any reason other than Force Majeure, up to the amount of such Contract Price payments due from Purchaser.

6.2 Sole Remedies. Except with respect to the payment of (a) Imbalance Charges pursuant to Section 10.3 and (b) the payment of the Contract Price payments due pursuant to Section 6.1, the remedies set forth in Section 6 shall be the sole and exclusive remedies of the parties for any Purchaser Receipt Failure.

7. REMARKETING PROVISIONS

7.1 Qualifying Use. To maintain the Tax-Exempt Status of the Bonds, and except as permitted by Treasury Regulation Section 1.148-1(e)(2)(iii)(A)(2) and as otherwise approved by an opinion of Tax Counsel as preserving the Tax-Exempt Status of the Bonds, Purchaser is obligated to apply, or caused to be applied, the Contract Gas for a Qualifying Use.

7.2 Remarketing by Seller.

7.2.1 Remarketing at Request of Purchaser. Pursuant to Section 8.1 of the Prepaid Gas Agreement, the Gas Supplier is to remarket Optional Remarket Gas at the request of Seller on the terms and conditions set forth in the Prepaid Gas Agreement. To accommodate a desire of Purchaser to have the Gas Supplier remarket any portion of the Prepaid Gas to be delivered to Purchaser as Contract Gas, Seller hereby authorizes Purchaser, on Seller's behalf, to exercise Seller's rights to request the Gas Supplier to remarket Prepaid Gas and agrees to cause the Gas Supplier to pay the Remarketing Price of all Prepaid Gas so remarketed to Purchaser. Notwithstanding a remarketing of Gas pursuant to Section 8.1 or Section 6.1 of the Prepaid Gas Agreement with respect to any portion of the Contract Gas, such Contract Gas shall be deemed to have been delivered by Seller to Purchaser hereunder and remarketed on Purchaser's behalf. Purchaser shall be liable for the Contract Price for all Gas so remarketed.

7.2.2 Required Remarketing. Pursuant to Section 8.2 and Section 8.3 of the Prepaid Gas Agreement, the Gas Supplier is required to remarket Prepaid Gas on the terms and conditions set forth in the Prepaid Gas Agreement. In recognition that such remarketed Prepaid Gas was to be delivered to Purchaser as Contract Gas, Seller shall cause the Gas Supplier to pay the Remarketing Price of all Gas so remarketed to Purchaser. Notwithstanding the required remarketing pursuant to Section 8.2 and Section 8.3 of the Prepaid Gas Agreement with respect to any portion of the of Prepaid Gas which was to be delivered hereunder as Contract Gas, such Gas shall be deemed to be Contract Gas delivered by Seller to Purchaser hereunder and remarketed on Purchaser's behalf. Purchaser shall be liable for the Contract Price for all Gas so remarketed.

7.3 Remarketing by Purchaser. Subject to the provisions of Section 7.1, Purchaser may remarket any Contract Gas delivered hereunder. In connection with any such remarketing, Purchaser shall comply with the requirements of this Section 7.3. Purchaser shall maintain books and records regarding each remarketing of Gas pursuant to this Section 7.3 and provide Seller, the Gas Provider and the Trustee with a written report, by the 10th Day of each Month following a Month in which Purchaser remarketed Gas, showing: the date of such remarketing; the name of the buyer; the Remarketing Price; and whether such remarketing was for a Qualifying Use or a Non-Qualifying Use. Purchaser shall use commercially reasonable efforts to

identify buyers of Gas who will apply the remarketed Gas to a Qualified Use and shall remarket all Gas remarketed pursuant to this Section 7.3 for a Qualified Use if the Remarketing Price is equal to or greater than the Remarketing Price in remarketing such Gas for a Non-Qualified Use. The use of Gas remarketed hereunder for a Qualifying Use shall in all cases be evidenced by a Qualifying Use Certificate delivered by the Purchaser of such Gas.

8. REMEDIATION PROVISIONS

8.1 Remediation Fund. Purchaser shall establish and maintain a special fund (the ***"Remediation Fund"***) so long as any Bonds are outstanding under the Indenture, which obligation shall survive the termination of this Agreement. Purchaser shall deposit in the Remediation Fund all amounts received by Purchaser pursuant to the Prepaid Gas Agreement in connection with the remarketing of Gas for a Non-Qualifying Use, all amounts received by Purchaser in connection with the remarketing of Contract Gas by Purchaser for a Non-Qualifying Use and such interest and other income on moneys in the Remediation Fund as constitute Proceeds Subject to Remediation. Amounts in the Remediation Fund shall be expended only for Remediation Uses, including the actions by Gas Supplier specified in Section 9.3 of the Prepaid Gas Agreement. Amounts in the Remediation Fund shall be deemed expended in order of the deposit of the applicable Remarketing Price on a first-in, first-out basis.

8.2 Monthly Reports. On or before the 10th Day of each Month, or if such Day is not a Business Day, the next succeeding Business Day, Purchaser shall provide Gas Supplier and Seller a written report specifying: (i) the date of deposit in the Remediation Fund of all amounts received by Purchaser pursuant to the Prepaid Gas Agreement in connection with the remarketing of Gas for a Non-Qualifying Use, all amounts received by Purchaser in connection with the remarketing of Contract Gas by Purchaser for a Non-Qualifying Use, and all Proceeds Subject to Remediation relating to such amounts, in each case which remain on deposit in the Remediation Fund as of the last day of the immediately preceding Month; and (ii) the details of each application of Proceeds Subject to Remediation for a Remediation Use during the immediately preceding Month by any person other than Seller.

8.3 Remediation by Purchaser. Purchaser shall use commercially reasonable efforts to cause all amounts in the Remediation Fund to be applied for a Remediation Use within twelve months of the applicable Receipt Date. Whenever Purchaser can apply Gas for a Qualifying Use, Purchaser shall first apply Contract Gas delivered hereunder for such Qualifying Use. Whenever Purchaser can apply Gas or electricity for a Qualifying Use, after applying Contract Gas delivered hereunder for such Qualifying Use, Purchaser shall then apply amounts in the Remediation Fund for such Qualifying Use.

Remediation by Gas Supplier. Section 9.3 of the Prepaid Gas Agreement provides for the Gas Supplier to take certain actions at specified times to apply amounts in the Remediation Fund for Remediation Uses. In order to accommodate Gas Supplier's taking such actions, the provisions of Section 9.1 of the Prepaid Gas Agreement not otherwise expressly included in Section 8 are hereby incorporated by reference into this Agreement, including the definitions of defined terms, as if set forth in full herein. Purchaser agrees to make the moneys in the Remediation Fund available to the Gas Supplier in connection with the Gas Supplier taking any action under Section 9.3 of the Prepaid Gas Agreement. Purchaser further agrees to take each action contemplated on the part of the Purchaser pursuant to Section 9.1 of the Prepaid Gas Agreement, including providing Retention Notices and notices of the anticipated use of moneys in the

Remediation Fund, set forth in such Section 9.1. Seller agrees not to consent to a larger discount 0than that specified in Section 9.3.1 of the Prepaid Gas Agreement without the prior written consent of Purchaser.

8.4 Remediation Through Redeeming Bonds. In the event that any Proceeds Subject to Remediation remain on deposit in the Remediation Fund for twenty-two (22) months after the applicable Receipt Date, Purchaser shall transfer such Proceeds Subject to Remediation and any other required funds to the Trustee for deposit in the Redemption Fund to be applied to the redemption of Bonds as directed by Seller and approved by Tax Counsel as preserving the Tax-Exempt Status of the Bonds.

8.5 Payments in Connection with Gas Supplier Remediation. Upon receipt of the report required by Section 9.3.2 of the Prepaid Gas Agreement, Purchaser shall withdraw from the Remediation Fund the aggregate amount of purchases indicated in each such report. If the report required by Section 9.3.2 of the Prepaid Gas Agreement indicates that the aggregate amount of all purchases by the Gas Supplier under said Section 9.3.3 is greater than the aggregate amount of all sales pursuant to said section, Purchaser shall pay such difference, from amounts withdrawn from the Remediation Fund, on the 25th Day of such Month, or if such Day is not a Business Day on the next succeeding Business Day by the wire transfer of immediately available United States funds. Payments by Purchaser pursuant to this Section 8.5 shall not be subject to the netting provisions of Section 13.

9. FORCE MAJEURE

9.1 Except with regard to a party's obligation to make payment(s) due hereunder, neither party shall be liable to the other for failure to perform an obligation under this Agreement, to the extent such failure was caused by Force Majeure.

9.2 Force Majeure shall mean: (i) physical events such as acts of God, landslides, lightning, earthquakes, fires, storms or storm warnings, such as hurricanes, which result in evacuation of the affected area, floods, washouts, explosions, breakage or accident or necessity of repairs to machinery or equipment or lines of pipe; (ii) weather related events affecting an entire geographic region, such as low temperatures which cause freezing or failure of wells or lines of pipe; (iii) interruption and/or curtailment of Firm transportation and/or storage by Transporters; (iv) acts of others such as strikes, lockouts or other industrial disturbances, riots, sabotage, insurrections or wars; (v) governmental actions such as necessity for compliance with any court order, law, statute, ordinance, regulation, or policy having the effect of law promulgated by a governmental authority having jurisdiction and (vi) any other causes, whether of the kind herein enumerated or otherwise (but not including economic hardship), not caused by the negligent or intentional act or omission of the party claiming suspension and which, by exercise of due diligence, such party is unable to overcome. Seller and Purchaser shall make reasonable efforts to avoid the adverse impacts of a Force Majeure and to resolve the impacts of an event of Force Majeure once it has occurred in order to resume performance.

9.3 Neither party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances: (i) the curtailment of interruptible or secondary Firm transportation unless primary, in-path, Firm

transportation is also curtailed; (ii) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; (iii) economic hardship, including, without limitation, Seller's ability to sell Gas at a higher or more advantageous price than the price payable hereunder, Purchaser's ability to purchase Gas at a lower or more advantageous price than the price payable hereunder, or a regulatory agency disallowing, in whole or in part, the pass through of costs resulting from this Agreement; (iv) the loss of Purchaser's market(s) or Purchaser's inability to use or resell Gas purchased hereunder, except, in either case, as provided in Section 9.2; or (v) the loss or failure of Seller's Gas supply except as provided in Section 9.2. The party claiming Force Majeure shall not be excused from its responsibility for Imbalance Charges.

9.4 Notwithstanding anything to the contrary herein, the parties agree that the settlement of strikes, lockouts or other industrial disturbances shall be within the sole discretion of the party experiencing such disturbance.

9.5 If Seller fails to deliver Gas as required under this Agreement, or Purchaser fails to receive Gas as required under this Agreement, and such failure is caused by an event of Force Majeure, the party that first learns of such failure shall promptly notify the other party by telephone or facsimile transmission. Notwithstanding anything to the contrary herein, the party whose performance is prevented by Force Majeure must provide notice to the other party. The affected party may give an initial notice orally; however, written notice with reasonably full particulars of the event or occurrence is required as soon as reasonably possible. Upon providing written notice of Force Majeure to the other party, the affected party will be relieved of its obligation, from the onset of the Force Majeure event, to make or accept delivery of Gas, as applicable, to the extent and for the duration of Force Majeure, and neither party shall be deemed to have failed in such obligations to the other during such occurrence or event and, except as provided herein with respect to Imbalance Charges, no prepayment shall be made by either party with respect to such failed delivery or receipt.

10. DELIVERY, ACCEPTANCE, IMBALANCES AND NOMINATIONS

10.1 Delivery.

10.1.1 Seller shall deliver the Gas required to be delivered hereunder to the Delivery Points, for the account of Purchaser, in the respective quantities of Gas specified for each Delivery Point as determined with and under the conditions set forth in this Section 10.1. Seller shall cause the Gas Supplier to deliver Gas at the Primary Delivery Point unless an Alternate Delivery Point has been agreed to by Purchaser, including an Alternate Delivery Point for Gas to be remarketed.

10.1.2 Pursuant to Section 11.2 of the Prepaid Gas Agreement, the Gas Supplier may request to deliver Gas at an Alternate Delivery Point on the terms and conditions set forth in the Prepaid Gas Agreement. Seller hereby authorizes Purchaser, on Seller's behalf, to exercise Seller's rights to approve the request of the Gas Supplier to deliver Gas at an Alternate Delivery Point and Seller agrees to credit against the Contract Price payments due from Purchaser in each Month the amount paid by the Gas Supplier in such Month with respect to costs incurred pursuant to Section 11.2 of the Prepaid Gas Agreement. Notwithstanding the delivery of Gas at an Alternate Delivery Point pursuant to Section 11.2 of the Prepaid Gas Agreement with respect

to any portion of the Daily Contract Quantity, Purchaser shall be liable for the Contract Price of all Gas so delivered less any credits described in the preceding sentence.

10.1.3 Pursuant to Section 11.3 of the Prepaid Gas Agreement, the Seller may request the delivery of Gas at an Alternate Delivery Point on the terms and conditions set forth in the Prepaid Gas Agreement. Seller hereby authorizes Purchaser, on Seller's behalf, to exercise Seller's rights to request the Gas Supplier to deliver Gas at an Alternate Delivery Point and Purchaser agrees to pay to Seller in each Month the amount required to be paid to the Gas Supplier in such Month with respect to costs incurred pursuant to Section 11.3 of the Prepaid Gas Agreement. Notwithstanding the delivery of Gas at an Alternate Delivery Point pursuant to Section 11.3 of the Prepaid Gas Agreement with respect to any portion of the Daily Contract Quantity, Purchaser shall be liable for the Contract Price of all Gas so delivered.

10.2 Acceptance. Purchaser shall accept delivery of Gas from Seller in the quantities and at the Delivery Points determined in accordance with and under the terms and conditions set forth herein.

10.3 Imbalances. If (i) an imbalance occurs on the system of a Transporter receiving or transporting Gas on behalf of Purchaser which is caused by the delivery by Seller or any pipeline or any other party receiving or transporting Gas on behalf of Seller of less or more than the quantity of Gas scheduled to be delivered hereunder (an ***"Imbalance"***) for any Gas Day during the Term hereof (in which case Seller shall be deemed to be the ***"Responsible Party"***), or (ii) an Imbalance occurs on the system of a Transporter receiving or transporting Gas on behalf of Seller or the Gas Supplier because of the receipt by Purchaser or any pipeline or other party receiving or transporting Gas on behalf of Purchaser of more or less than the quantity of Gas scheduled to be received hereunder on any Gas Day during the Term hereof (in which case Purchaser shall be deemed to be the ***"Responsible Party"***), the Responsible Party will be liable to the other party for any associated Imbalance Charges. Imbalance Charges shall be paid in the manner set forth in Section 13. The parties shall use commercially reasonable efforts to avoid the imposition of any Imbalance Charges. If Purchaser or Seller receives an invoice from a Transporter that includes Imbalance Charges for an Imbalance under this Agreement, the parties shall determine the validity as well as the cause of such Imbalance Charges.

10.4 Transportation. As between the parties, Seller shall have the sole responsibility for transporting Gas to the Delivery Points. As between the parties, Purchaser shall have the sole responsibility for transporting Gas from the Delivery Points.

10.5 Nominations. Pursuant to Section 14 of the Prepaid Gas Agreement, Seller and Gas Supplier have agreed to coordinate their nomination activities with respect to the delivery and receipt of Gas and to give certain notices to each other in connection therewith. Seller hereby authorizes Purchaser, on Seller's behalf, to exercise its rights with respect to nominations of Gas under the Prepaid Gas Agreement and to enforce the Gas Supplier's obligations under Section 14 of the Prepaid Gas Agreement. Purchaser agrees to perform, on Seller's behalf, all of Seller's obligations under Section 14 of the Prepaid Gas Agreement.

11. DELIVERY POINTS AND TITLE

11.1 Title. Title to the Gas delivered hereunder shall pass from Seller to Purchaser at the Delivery Point for such Gas.

11.2 Liability. As between the parties hereto, Seller shall be in control and possession of Gas and responsible for any injuries, Claims, liabilities or damages caused thereby until the Gas has been delivered for the account of Purchaser to the Delivery Point for such Gas, and, at and after such delivery, Purchaser shall be in control and possession of the Gas and responsible for any injuries, Claims, liabilities or damages caused thereby.

12. QUALITY AND MEASUREMENT

12.1 Pipeline Specifications. Gas delivered hereunder shall meet the pipeline quality and heat specifications as defined in the gas tariff filed by the applicable Transporter and accepted by F.E.R.C. as applicable to Gas at the respective Delivery Points.

12.2 Measurement. Gas delivered hereunder shall be measured by Transporters at the respective Delivery Points where possible and, in all other instances shall be measured by the operators of the facilities at the Delivery Points and reported to the Transporters. The unit of quantity measurement for purposes of this Agreement shall be one (1) MMBtu dry. Measurement of Gas quantities hereunder shall be in accordance with the established procedures of the applicable Transporters or operators.

12.3 Btu Content. The Btu content of the Gas delivered hereunder shall be determined each Month based upon the measurements and calculations made by the applicable Transporter in accordance with the gas tariff approved for such Transporter by F.E.R.C.

13. BILLING, PAYMENT, AND AUDIT

13.1 Invoices.

13.1.1. On or before the 15th Day of each Month, from February, 2008 to and including the Month following the final Month of the Term of this Agreement, Seller shall prepare and deliver to Purchaser, or cause to be prepared and delivered to Purchaser, an invoice for all Contract Gas delivered and deemed delivered hereunder to Purchaser in the preceding Month. The invoice shall specify: (i) the amount of Contract Gas delivered or deemed delivered on each Gas Day during such Month; and (ii) any credits allowed against the Contract Price pursuant to this Agreement. If the actual quantity of Contract Gas delivered or deemed delivered is not known by the invoice date, the invoice will be prepared based on the quantity of Gas that had been scheduled. The invoiced quantity will then be adjusted to the actual quantity on the following Month's billing or as soon thereafter as actual delivery information is available. Payments of any amounts invoiced by or on behalf of Seller pursuant to this Section 13.1.1 shall be made by Purchaser as provided in Section 13.2.

13.1.2. On or before the 10th Day of each Month, from February, 2008 to and including the Month following the final Month of the Term of this Agreement, Purchaser shall prepare and deliver to Seller and the Gas Supplier a statement (the ***"Purchaser Statement"***) specifying all amounts payable by Seller to Purchaser relating to Contract Gas to be delivered and received in the preceding Month, including Taxes, Imbalance Charges, transportation charges and indemnification payments. Purchaser shall also include in the Purchaser Statement for each Month the charges incurred by Purchaser in connection with Replacement Gas purchased in such Month. Purchaser shall provide supporting documentation acceptable in industry practice to support the amounts set forth in the Purchaser Statement, including identifying on the Purchaser

Statement the Replacement Gas volumes delivered and such other information as may be necessary to provide proper evidence of the volumes and cost of Replacement Gas.

13.1.2. On or before the 15th Day of each Month, from February, 2008 to and including the Month following the final Month of the Term of this Agreement, Seller shall cause Gas Supplier to prepare and deliver to Seller a Seller Billing Statement pursuant to Section 18.1.2 of the Prepaid Gas Agreement. During the Term hereof while the Miscellaneous Charges payable to the Gas Supplier with respect to the Prepaid Gas under the Prepaid Gas Agreement shall be the same as the charges, other than the Contract Price payments, payable to the Seller with respect to the Contract Gas to be delivered hereunder, Sellerer shall make the Seller Billing Statement available to Purchaser promptly upon receipt thereof.

13.1.4. On or before the 15th Day of each Month, from February, 2008 to and including the Month following the final Month of the Term of this Agreement, Seller shall cause Gas Supplier to prepare and deliver to Seller pursuant to Section 18.1.3 of the Prepaid Gas Agreement, an invoice with respect to amounts accruing during the preceding Month under the Prepaid Gas Agreement. Such invoice shall separately identify the Gas Payments to be made by the Gas Supplier, the Remarketing Price of any Gas remarketed under the Prepaid Gas Agreement and any Miscellaneous Charges payable to the Gas Supplier with respect to the Prepaid Gas under the Prepaid Gas Agreement. During the Term hereof, Seller shall make such invoice available to Purchaser promptly upon receipt thereof. In preparing such invoice, Seller shall cause Gas Supplier to net all amounts, charges and adjustments due Purchaser contained in the Purchaser's Statement for a Month against the Gas Supplier's Miscellaneous Charges for such Month such that a single payment with respect to such amounts, charges and adjustments shall be made by the party owing the net amount. Contract Price payments to be made by Purchaser shall not be subject to the netting provisions of this Section 13.1.4. If an invoice indicates a payment is due from Seller, Purchaser shall pay such amount as provided in Section 13.2.

13.2 Manner of Payment. Payments due hereunder by Purchaser shall be made by the Purchaser by 11:00 a.m. on the 25th Day of Month next succeeding the Month in which Gas is delivered or deemed delivered hereunder, or the other transaction or event giving rise to such payment occurred ("***Payment Date***"); provided that if the Payment Date is not a Business Day, payment is due on the next succeeding Business Day. All payments hereunder shall be made in immediately available United States funds by wire transfer. All payments made hereunder by Purchaser during the Term shall be made to the Trustee for deposit in the Revenue Fund.

13.3 Disputed Amounts.

(i) Purchaser shall pay the invoiced amount for all Contract Price payments in the manner set forth in Section 13.2 on an absolutely net basis free of any deductions and without abatement, diminution or setoff whatsoever irrespective of any defense or any rights of setoff, recoupment or counterclaim a party might otherwise have against the other party or any other person.

(ii) If the Purchaser, in good faith, disputes the amount of any invoice received under this Agreement, or any part thereof, other than any invoice for a Contract Price payment, the Purchaser will pay such amount as it concedes to be correct; provided, however, if the invoiced party disputes the amount due, it must, on or before the Payment Date, provide written notice to

the Seller, the Gas Supplier and the Trustee of the disputed amount and supporting documentation acceptable in industry practice to support the amount paid or disputed. The parties shall then confer and attempt to resolve the disputed amount by agreement. In the event the parties are unable to resolve such dispute, Purchaser may pursue any remedy available at law or in equity to enforce its rights pursuant to this Agreement with respect to such disputed amount.

(iii) If the Purchaser, in good faith, disputes the amount of any invoiced Contract Price payment, it must, on or before the Payment Date, provide written notice to the Seller, the Gas Supplier and the Trustee of the disputed amount and supporting documentation acceptable in industry practice to support the amount disputed and shall nonetheless pay the amount invoiced. The parties shall then confer and attempt to resolve the disputed amount by agreement. In the event the parties are unable to resolve such dispute, the Purchaser may pursue any remedy available at law or in equity to enforce its rights pursuant to this Agreement with respect to such disputed amount.

13.4 Interest on Unpaid Payments. If the Purchaser fails to remit the full amount payable when due, interest on the unpaid portion shall accrue from the date due until the date of payment at a rate equal to the lower of (i) Prime Rate, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

13.5 Audits.

13.5.1 Audits Under this Agreement. A party shall have the right, upon reasonable notice and between 8:00 a.m. and 5:00 p.m., local time, on any Business Day, and upon the execution of reasonable confidentiality/access agreements to verify the accuracy of any statement, charge, payment, and computation made under this Agreement. This right to verify shall include the right to examine, audit, and to obtain copies of documents and records (collectively ***"Audit"***) but shall not be available with respect to proprietary information not directly relevant to transactions under this Agreement. Each party shall bear its own costs incurred in connection with any Audit made pursuant to this Section 13.5.1. Such right to audit shall be available for the Term of this Agreement and for two years thereafter. All audits shall be on a confidential basis. For purposes of this audit provision, the parties deem at least two weeks as reasonable notice unless the audit occurs as the result of a default by a party hereunder. Upon the occurrence of a default by a party hereunder, the requesting party may give one (1) Business Day's notice. Notwithstanding anything to the contrary contained herein, nothing in this Section 13.5.1 shall obligate a party to retain any document related to this Agreement for any period in excess of that which would be required under that party's normal document retention policy. Each party shall give the other party notice of any change ins normal document retention policy made after the effectiveness of this Agreement.

13.5.2 Audits Under Prepaid Gas Agreement. Pursuant to Section 19 of the Prepaid Gas Agreement, Seller and Gas Supplier have provided for the verification of the accuracy of statements, charges, payments, and computations made thereunder. Seller hereby authorizes Purchaser, on Seller's behalf, to exercise Seller's rights to such verification under Section 19 of the Prepaid Gas Agreement. Purchaser hereby agrees that the Gas Supplier shall have the same rights with respect to an Audit as are given to Seller pursuant to Section 13.5.1.

14. INDEMNIFICATION

14.1 Indemnities by Purchaser.

14.1.1 Indemnities of Seller. Regardless of any investigation made at any time by or on behalf of Purchaser or any information Purchaser may have, and regardless of the presence or absence of insurance, Seller, to the extent permitted by applicable law, shall indemnify and hold harmless Purchaser and its Indemnity Group from and against any and all Claims caused by, arising out of, resulting from, or relating in any way to, and to pay Purchaser and each member of its Indemnity Group any sum that such person pays or becomes obligated to pay on account of: (a) any adverse Claim by any person based on title to or interest in the Gas sold under this Agreement or the proceeds from the sale thereof; or (b) **ANY CLAIM BY ANY PERSON FOR INJURY TO OR DEATH OF ANY PERSON, PERSONS, OR OTHER LIVING THINGS, OR LOSS OR DESTRUCTION OF PROPERTY, ARISING FROM ANY ACT OR ACCIDENT OCCURRING WHEN TITLE TO THE GAS SOLD HEREUNDER IS VESTED IN SELLER, INCLUDING, WITHOUT LIMITATION, ACTS OR ACCIDENTS ARISING OUT OF THE SOLE, JOINT, OR CONCURRENT NEGLIGENCE (BUT NOT THE GROSS NEGLIGENCE, WILLFUL MISCONDUCT, OR BAD FAITH) OF PURCHASER.**

14.1.2 Indemnities of Gas Supplier. Pursuant to Section 20.2 of the Prepaid Gas Agreement, Seller has agreed to indemnify the Gas Provider and certain other persons against certain claims arising in connection with the Gas. Because Seller is providing for the immediate redelivery of the Gas it receives under the Prepaid Gas Agreement at the Delivery Point of such Gas, and therefore Purchaser shall have control of such Gas at the Delivery Point, Purchaser shall pay to the persons entitled thereto all amounts due from Seller pursuant to Section 20.2 of the Prepaid Gas Agreement. Seller hereby authorizes Purchaser, on Seller's behalf, to exercise all of its rights under Section 20.2 of the Prepaid Gas Agreement with respect to any indemnification sought pursuant to said Section 20.2.

14.2 Notice of Claims; Defense; Settlement. Upon the discovery by any party entitled to indemnification under any provision of this Agreement of facts giving rise to a Claim for indemnification hereunder, including the receipt by any such party of notice of any Claim by any Third Party, the party entitled to indemnification shall give prompt written notice of any such Claim to the other party. For purposes of this Section 14.2, the party giving notice of a Claim and requesting indemnification shall be referred to as the "***Indemnified Party***," and the party receiving notice of a Claim and from which indemnification is sought shall be referred to as the "***Indemnifying Party***." Each such notice shall set forth the facts known to the Indemnified Party pertaining to the Claim and shall specify the manner in which the Indemnified Party proposes to respond to the Claim. Within ten (10) Days of the receipt by the Indemnifying Party of such notice, the Indemnifying Party shall state in writing to the Indemnified Party: (a) whether the Indemnified Party may proceed to respond to the Claim in the manner set forth in its notice, or (b) whether the Indemnifying Party shall assume responsibility for and conduct the negotiation, defense, or settlement of the Claim, and if so, the specific manner in which the Indemnifying Party proposes to proceed (which assumption of responsibility shall, in no event, be an admission or recognition of the legitimacy of truthfulness of such Claim). If the Indemnifying Party assumes control of the Claim, the Indemnified Party shall at all times have the right to participate in the defense thereof and to be represented, at its sole expense, by counsel selected by it. If the Indemnifying Party disputes its potential liability to the Indemnified Party within such ten-Day

period, the Indemnified Party shall be entitled to assume responsibility for and conduct the negotiation, defense, or settlement of the Claim. Unless the Indemnifying Party is denying responsibility for indemnification with respect to such Claim, no Claim shall be compromised or settled by either the Indemnifying Party or the Indemnified Party, as applicable, in any manner that might adversely affect the interest of the other party without the prior written consent of such other party. If the Indemnifying Party is denying responsibility for indemnification with respect to a Claim, no settlement of such Claim without its consent shall prejudice the rights of the Indemnified Party to any indemnification due under this Agreement. As a condition precedent to indemnification under this Agreement, the Indemnified Party shall assign to the Indemnifying Party, and the Indemnifying Party shall become subrogated to, all rights, Claims, and causes of action of the Indemnified Party against Third Parties arising out of or pertaining to the matters for which the Indemnifying Party shall provide indemnification. The amount of the Indemnified Party's Claim for indemnification shall be reduced by the amount of any insurance reimbursement paid to the Indemnified Party pertaining to the Claim without prejudice to any rights of subrogation granted to the provider of such insurance.

15. REPRESENTATIONS AND WARRANTIES

15.1 Representations and Warranties by Seller. Seller hereby represents and warrants to Purchaser as of the date of this Agreement:

15.1.1 Seller is a joint exercise of powers agency and public entity of the State of California, duly established and existing under the laws of the State of California and has the power and authority to own its property and to carry on its business as now conducted and to enter into and to carry out the terms of this Agreement, including the sale of the Gas delivered or deemed delivered hereunder.

15.1.2 The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate, member, voter, governmental agency or other action on behalf of Seller, and Seller is not subject to any statute, bylaw, lien or encumbrance of any kind, agreement, instrument, order or decree of any court or governmental body which would prevent consummation of the transactions contemplated by this Agreement. The execution and performance of this Agreement by Seller do not or will not violate any material statute, ordinance or governmental rule or regulation applicable to Seller, or result in a breach or constitute a default under any material indenture or agreement to which Seller is a party or by which its properties may be bound. This Agreement constitutes the valid and binding obligation of Seller enforceable in accordance with its terms, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect relating to the rights and remedies of creditors, as well as to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law). To the fullest extent permitted by applicable law, Seller covenants not to exercise, and waives any right to exercise, any defense not available to non-governmental corporations, including specifically, but without limitation, the defense of sovereign immunity generally available to certain governmental entities.

15.1.3 Seller has the right to sell to Purchaser the Gas to be delivered hereunder, and at the time of delivery of Gas hereunder all such Gas shall be free from any and all liens, encumbrances and adverse claims of any nature created by Seller.

15.1.4 EXCEPT AS PROVIDED IN SECTION 15.1.3, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE, ARE DISCLAIMED.

15.2 Representations of Purchaser. Purchaser hereby makes the following representations and warranties to Seller:

15.2.1 Purchaser is a municipal corporation and chartered City of the State of California, duly established and existing under its charter and the laws of the State of California and has the power and authority to own its property and to carry on its electric utility business as now conducted and to enter into and to carry out the terms of this Agreement, including the purchase of the Gas purchased hereunder.

15.2.2 The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate, voter, governmental agency or other action on behalf of Purchaser, and Purchaser is not subject to any charter provision, statute, bylaw, lien or encumbrance of any kind, agreement, instrument, order or decree of any court or governmental body which would prevent consummation of the transactions contemplated by this Agreement. The execution and performance of this Agreement by Purchaser do not or will not violate any material charter provision, statute, ordinance or governmental rule or regulation applicable to Purchaser, or result in a breach or constitute a default under any material indenture or agreement to which Purchaser is a party or by which its properties may be bound. This Agreement constitutes the valid and binding obligation of Purchaser enforceable in accordance with its terms, subject, however, to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect relating to the rights and remedies of creditors, as well as to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law). To the fullest extent permitted by applicable law, Purchaser covenants not to exercise, and waives any right to exercise, any defense not available to non-governmental corporations, including specifically, but without limitation, the defense of sovereign immunity generally available to certain governmental entities.

16. NOTICE

All notices, requests, demands and other communications hereunder shall be in writing except as otherwise noted and shall be delivered personally sent by bonded overnight courier, mailed by United States Express Mail or by certified or registered United States mail with all postage fully prepaid, sent by prepaid telegram or sent by facsimile transmission, in each case addressed to the appropriate party at the address for such party shown below or at such other address as such party shall have theretofore designated by written notice delivered to the party giving such notice:

Purchaser:

CITY OF ROSEVILLE
311 Vernon Street
Roseville, CA 95678
Attn: Finance Director/Treasurer
Phone: (916) 774-5320
Fax: (916) 746-1220

Seller:

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
311 Vernon Street
Roseville, CA 95678
Attn: Executive Director
Phone: (916) 774-5320
Fax: (916) 746-1220

Except as otherwise permitted, any notice given in accordance herewith shall be deemed to have been given and received when delivered to the addressee, which delivery may be evidenced by (i) a signed receipt of the addressee given to the courier or postal service or telegraph company, or (ii) by confirmed facsimile transmission as provided in the following sentence, as the case may be. Notice by facsimile transmission shall be deemed given and received upon transmission by the notifying party of a faxed notice to the facsimile number set forth above or designated pursuant to this Section 16, with confirmation on the sender's machine of the success of the facsimile transmission.

17. DEFAULTS AND REMEDIES

17.1 Seller Defaults. Subject to the provisions of this Agreement limiting remedies and damages, in the event of a default by Seller under any covenant, agreement, or obligation in this Agreement, Purchaser may bring any suit, action, or proceeding at law or in equity, including without limitation mandamus, injunction, and action for specific performance, as Purchaser determines may be necessary or appropriate to enforce Seller's performance of any covenant, agreement, or obligation in this Agreement.

17.2 Purchaser Material Default.

17.2.1 Purchaser Material Defaults. Each of the following events shall constitute a "***Purchaser Material Default***" under this Agreement:

(a) Purchaser shall fail to pay within two Business Days of when the same shall be due hereunder, any amounts payable by Purchaser to Seller pursuant to this Agreement; or

(b) A Bankruptcy Event shall have occurred with respect to Purchaser.

17.2.2 Remedies for Purchaser Material Default. In the event of any Purchaser Material Default, Seller shall, with written notice to Purchaser and Customer Insurance

Provider, immediately terminate this Agreement and upon such termination all obligations of Seller to deliver Gas to Purchaser hereunder shall cease.

17.2.3 Liability of Purchaser for Delivered Gas. In the event of the termination of this Agreement as a result of a Purchaser Material Default, Purchaser shall have no liability for any damages or settlement amounts with respect to Gas to be delivered hereunder after such termination but Purchaser shall remain obligated to pay, in accordance with Section 22.16, the Contract Price payments for all unpaid Gas delivered hereunder prior to such termination, and interest thereon as provided in this Agreement, whether or not Purchaser has received an invoice for such Gas. Payment by the Customer Insurance Provider under the Customer Insurance Policy of amounts payable by Purchaser for Contract Price payments shall not constitute payment of such amounts by Purchaser and Purchaser shall remain liable to make such payments hereunder.

17.2.4 Assignment of Seller Rights. Upon the Trustee receiving a payment under the Customer Insurance Policy equal to the Contract Price payments payable by Purchaser for all unpaid Gas delivered hereunder prior to the termination of this Agreement as a result of a Purchaser Material Default, the Customer Insurance Provider shall be subrogated to all rights of Seller to such Contract Price payments and all rights of Seller to such Contract Price payments shall, automatically and without the necessity for any further act by Seller, be transferred and assigned to the Customer Insurance Provider. Notwithstanding the termination of this Agreement as a result of a Purchaser Material Default, the Customer Insurance Provider, as subrogee and assignee of Seller's rights to such Contract Price payments, shall have the right to bring any suit, action, or proceeding at law or in equity, as the Customer Insurance Provider determines may be necessary or appropriate, to enforce Purchaser's obligation to pay such Contract Price payments.

17.3 Purchaser Defaults Generally. Subject to the provisions of this Agreement limiting remedies and damages, in the event of any default by Purchaser under any covenant, agreement, or obligation in this Agreement, Seller may bring any suit, action, or proceeding at law or in equity, including without limitation mandamus, injunction, and action for specific performance, as Seller determines may be necessary or appropriate to enforce Purchaser's performance of any covenant, agreement, or obligation in this Agreement.

18. LIMITATIONS

FOR BREACH OF ANY PROVISION HEREOF FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY. A PARTY'S LIABILITY HEREUNDER SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED TO THE FULLEST EXTENT PERMITTED BY LAW. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN, A PARTY'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY. SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED TO THE FULLEST EXTENT PERMITTED BY LAW. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR

OTHERWISE TO THE FULLEST EXTENT PERMITTED BY LAW. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

19. ASSIGNMENT

The terms and provisions of this Agreement shall extend to and be binding upon the parties, their respective heirs, successors, assigns, and legal representatives; provided, however, neither party shall assign this Agreement without the prior written consent of the other party (and any purported assignment without such consents shall be void), except that Seller shall be permitted to assign its interest herein to the Trustee pursuant to the Indenture and to the Customer Insurance Provider pursuant to Section 17.2.4 without the consent of Purchaser. Whenever an assignment or a transfer of a party's interest in this Agreement requires the written consent of the other party, the assigning or transferring party's assignee or transferee shall expressly assume, in writing, the duties and obligations under this Agreement of the assigning or transferring party, and upon such assignment or transfer and assumption of the duties and obligations, the assigning or transferring party shall furnish or cause to be furnished to the other party a true and correct copy of such assignment or transfer and assumption of duties and obligations. Upon furnishing such copy, the assigning or transferring party shall be relieved of all of its obligations hereunder to be performed after furnishing such copy.

20. SOURCE OF PURCHASER'S PAYMENTS

Purchaser agrees to make payments it is required to make under this Agreement from the revenues of its electric system, and only from such revenues, and as a charge against such revenues, as an operating expense of its electric system and a cost of fuel for its electric generating units; provided, however, that Purchaser, in its discretion, may apply any legally available monies to the payment of amounts due under this Agreement. Purchaser hereby covenants and agrees that it will establish, maintain, and collect rates and charges for its electric system so as to provide revenues sufficient, together with all available electric system revenues, to enable Purchaser to pay to Seller all amounts payable under this Agreement and to pay all other amounts payable from the revenues of Purchaser's electric system, and to maintain any required reserves. Purchaser further covenants and agrees that it shall not furnish or supply electric services free of charge to any person, firm, corporation association, or other entity, public or private, except any such service free of charge that Purchaser is supplying on the date of this Agreement, and that it shall promptly enforce the payment of any and all accounts owing to Purchaser for the sale of electricity or the provision of transmission, distribution or other services to its customers. Purchaser further covenants and agrees that in any future bond issue, certificate of participation issue, interest rate swap agreement, commodity swap agreement or any other financing or financial transaction undertaken by, or on behalf of, Purchaser in connection with its electric system, Purchaser shall not pledge or encumber the revenues of its

electric system through a gross revenue pledge or in any other way which creates a prior or superior obligation to its obligation to make payments under this Agreement.

21. MARKET DISRUPTION AND PRICE CORRECTION

21.1 Market Disruption.If a Market Disruption Event has occurred with respect to a price index that is referenced both in this Agreement and in the Prepaid Gas Agreement then the replacement price shall be determined in accordance with the market disruption procedures set forth in the Prepaid Gas Agreement.

21.2 Price Correction. For purposes of determining the relevant prices for any Gas Day, if, during the Term of this Agreement, the Index Price published is corrected no later than 30 Days after the original publication and the correction is published or announced by the person responsible for that publication or announcement, either party may notify the other party of (i) that correction and (ii) the amount (if any) that is payable as a result of that correction. If a party gives notice that an amount is so payable, the party that originally either received or retained such amount will, not later than three (3) Business Days after the effectiveness of that notice, pay, subject to any applicable conditions precedent, to the other party that amount, together with interest at the Prime Rate for the period from and including the Day on which payment originally was (or was not) made to but excluding the Day of payment of the refund or payment resulting from that correction.

22. MISCELLANEOUS

22.1 Severability. If any article, section, term, or provision of this Agreement becomes or is declared to be illegal, invalid, void or unenforceable by any court having jurisdiction, such determination shall not invalidate, void, or make unenforceable any other article, section, term, provision, agreement or covenant of this Agreement.

22.2 Termination of Agreement. Notwithstanding anything herein to the contrary, this Agreement shall automatically terminate, without the necessity of any action by, or notice to, either party upon the termination of the Prepaid Gas Agreement.

22.3 Waivers. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.

22.4 Regulatory Authorities. This Agreement shall be subject to all valid applicable state, federal and local laws, rules and regulations; provided, that either party hereto shall be entitled to regard all laws, rules and regulations issued by any federal or state regulatory body as valid and may act in accordance therewith until such time as the same may be held invalid by final judgment in a court of competent jurisdiction. Nothing herein shall be taken to preclude Purchaser or Seller or both from contesting the validity of any such law(s), rule(s) or regulation(s).

22.5 Entirety of Agreement. This Agreement, including the Exhibits hereto, sets forth all understandings between the parties respecting the subject matter hereof, and supersedes any and all prior negotiations, contracts, understandings and representations, whether oral or written, relating to the matters covered by this Agreement. Except as provided in Section 19, this Agreement is for the benefit of Seller and Purchaser only and not for the benefit of third parties.

22.6 Amendment. Unless otherwise provided herein, no modification, amendment, or other change to this Agreement or the Exhibits will be binding on any party unless consented to in writing by both parties, which consent may be granted or withheld in the sole discretion of such party. No modification, amendment, or other change to Sections 4, 13, 17.2, 17.3, 18,19, 20, 22, 22.6, 22.16, and Exhibit A of this Agreement will be binding on any party unless consented to in writing by the Customer Insurance Provider. Seller agrees that it will not direct, request, or consent to any amendment of the definition of "Revenues" contained in the Indenture or Section 5.06(c) of the Indenture without the prior written consent of the Customer Insurance Provider.

22.7 Choice of Law. The interpretation and performance of this Agreement shall be governed by the laws of the State of New York without reference to the conflict of laws principles therein. Notwithstanding the foregoing, the parties agree that matters relating to the powers, authority and capacity of Purchaser shall be governed by the laws of the State of California.

22.8 Waiver of Jury Trial. EACH PARTY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING RELATING TO THIS AGREEMENT. EACH PARTY CERTIFIES THAT THE OTHER PARTY HAS NOT REPRESENTED THAT IT WOULD NOT ENFORCE THE FOREGOING WAIVER OF JURY TRIAL IF A DISPUTE ARISES. EACH PARTY ACKNOWLEDGES THAT THE OTHER PARTY HAS RELIED ON THE FOREGOING WAIVER OF JURY TRIAL IN ENTERING INTO THIS AGREEMENT.

22.9 Headings. The headings and subheadings contained in this Agreement are used solely for convenience and do not constitute a part of this Agreement and shall not be used to construe or interpret the provisions of this Agreement.

22.10 Computations. All computations related to prices and indices performed under this Agreement shall be rounded to four (4) decimal places ($0.0000).

22.11 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and each of which shall be deemed an original instrument as against any party who has signed it.

22.12 Additional Documents and Actions. Each party agrees to execute and deliver from time to time such additional documents, and take such additional actions, as may be reasonably required by the other party to effect the purposes of this Agreement.

22.13 No Reliance. In connection with the negotiation of, the entering into, and the confirming of the execution of, this Agreement each party represents and warrants that (i) it is acting as principal (and not as agent or in any other capacity, fiduciary or otherwise); (ii) the other party is not acting as a fiduciary or financial or investment advisor for it; (iii) it is not relying upon any representations (whether written or oral) of the other party other than the representations expressly set forth in this Agreement; (iv) the other party has not given to it (directly or indirectly through any other person) any advice, counsel, assurance, guaranty, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence, or benefit (either legal, regulatory, tax, financial,

accounting, or otherwise) of this Agreement; (v) it is entering into this Agreement with a full understanding of all of the risks hereof and thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

22.14 Preparation. This Agreement was negotiated and prepared by both parties hereto with advice of counsel to the extent deemed necessary by each party, and was not prepared by any party to the exclusion of the other, and, accordingly, should not be construed against either party by reason of its preparation.

22.15 Expenses. Unless otherwise provided herein, each party hereto shall bear and be responsible for all fees, costs and expenses (including, without limitation, legal, accounting and engineering expenses) incurred by such party with respect to the negotiation and consummation of this Agreement (including all ancillary documents) and the transactions described herein.

22.16 Survival. Upon the expiration or termination of this Agreement, the indemnity obligations of a party with respect to events occurring during the Term of this Agreement shall survive any such expiration and termination and continue in full force and effect. The expiration or termination of this Agreement shall not relieve either party of (a) any unfulfilled obligation or undischarged liability of such party which accrued during the Term of this Agreement or (b) the consequences of any breach or default of any representation, warranty or obligation contained in this Agreement by or on the part of such party occurring during the Term of this Agreement.

22.17 Winding Up Arrangements. Except as otherwise provided herein, upon expiration of the Term, or other termination, of this Agreement, any monies or penalties due and owing either party shall be paid pursuant to the terms hereof, and any corrections or adjustments to payments previously made shall be determined and any refunds due either party shall be made at the earliest possible time, and in any event no later than sixty (60) Days following such expiration or termination. Any Imbalances in receipts or deliveries shall be corrected to zero balance within sixty (60) Days following such expiration or termination.

22.18 Recording Telephone Conversations. The parties agree that each party may electronically record all telephone conversations with respect to this Agreement and/or the Prepaid Gas Agreement between their respective employees and/or the employees of the Gas Supplier, without any special or further notice to the other party or the Gas Supplier. Each party shall obtain any necessary consent of its agents and employees to such recording.

22.19 Covenants of the Parties Regarding Federal Tax Issues. Notwithstanding anything herein to the contrary, the parties agree to comply with any certifications made to, or procedures required by, Tax Counsel to protect the Tax-Exempt Status of the Bonds regarding the sale, delivery, purchase or receipt of Gas pursuant to the terms of this Agreement, the application of any Proceeds Subject to Remediation or any other proceeds in connection with the Gas, and any other matters affecting the Tax-Exempt Status of the Bonds.

22.20 Prepaid Gas Agreement. Seller shall collect or cause to be collected and forthwith cause to be deposited in the applicable fund under the Indenture all amounts payable to it pursuant to the Prepaid Gas Agreement or otherwise payable to it with respect to the Gas Supply (as defined in the Indenture) or any part thereof. Seller shall enforce the provisions of the Prepaid Gas Agreement, as well as any other contract or contracts entered into relating to the Gas Supply, and duly perform its covenants and agreements thereunder. Seller will not consent or

agree to or permit any termination or rescission of or amendment to or otherwise take any action under or in connection with the Prepaid Gas Agreement which will impair the ability of Seller to comply during the current or any future year with the provisions of the Indenture or this Agreement; provided that this provision shall not prevent Seller from otherwise taking any action under or in connection with the Prepaid Gas Agreement which is expressly permitted pursuant to the provisions thereof. A copy of the Prepaid Gas Agreement certified by an authorized officer of Seller shall be filed with Purchaser, and a copy of any such amendment certified by an authorized officer of Seller shall be filed with Purchaser.

22.21 Seller Expenses. In the event Seller is obligated to pay administrative or other expenses in connection with the Indenture, the Bonds, the Prepaid Gas Agreement or this Agreement, not otherwise payable by Purchaser hereunder (including but not limited to expenses in connection with the redemption of Bonds, indemnification payments, fees and expenses of the Trustee, accountants attorneys, Gas consultants and others, rebate and other payments to the United States with respect to the Bonds and fees and expenses in connection litigation and/or government investigations and audits) and the amounts available therefor in the Operating Fund are not sufficient to pay such amounts and the other amounts then payable from the Operating Fund, Purchaser shall pay Seller an amount equal to such expenses within ten (10) Business Days of receiving an invoice therefor from Seller which invoice shall describe the nature of the expenses. No amounts shall be payable by Purchaser pursuant to the preceding sentence with respect to any amounts due in connection with a Commodity Swap or a Forward Purchase Agreement (as such terms are defined in the Indenture). In the event that, due to the limitations on the increase in the Contract Price contained in Section 1.1.11, the Contract Price, as adjusted pursuant to Section 1.1.11 and Section 7.13 of the Indenture, is not sufficient to provide for lost investment income in accordance with Section 7.13 of the Indenture, Purchaser agrees to pay the amount of such insufficiency. Such payments shall be made in accordance with Section 13.2.

22.22 Special Obligations of Seller. Notwithstanding anything to the contrary contained herein: (i) the obligation of Seller to deliver Gas hereunder at any Delivery Point on any Gas Day is limited to the delivery of Gas which Seller receives under the Prepaid Gas Agreement at such Delivery Point on such Gas Day; (ii) the obligation of Seller to pay any amount hereunder or to give credits against amounts due from the Purchaser hereunder is limited to amounts Seller receives under the Prepaid Gas Agreement or otherwise available to Seller in connection with the transaction for which such payment or credit relates and which are on deposit in the Operating Fund (iii) any imbalance, transportation, tax, indemnification and other Miscellaneoous Charges for which Seller is responsible under the Prepaid Gas Agreement shall be considered imbalance, transportation, tax, indemnification and other charges incurred by Seller hereunder; and (iv) any event of Force Majeure affecting the delivery of Gas by Gas Supplier under the Prepaid Gas Agreement shall be considered an event of Force Majeure affecting Seller with respect to the delivery of Gas hereunder and Seller forwarding to Purchaser notices and information from the Gas Supplier concerning an event of Force Majeure promptly upon receipt thereof shall be sufficient notice and information for purposes of Section 9.

22.23 Continuing Disclosure. Purchaser hereby covenants and agrees that it will provide to Seller or its designee, annual operating and financial information relating to its municipal electric system as required by Rule 15(c) 2-12 of the Securities Exchange Commission (the ***"Rule"***) to the extent the Rule is applicable to the Bonds. Failure by Purchaser to comply with this undertaking shall not be a default under this Agreement, but any such failure shall

entitle Seller and the owner or owners of the Bonds to take such actions and to initiate such proceedings as may be necessary and appropriate to cause Purchaser to comply with its undertaking as set forth in this Section 22.23, including without limitation the remedies of mandamus and specific performance.

IN WITNESS WHEREOF, the Roseville Natural Gas Financing Authority has caused these presents to be executed on its behalf by its Executive Director and attested by its Secretary, each being thereunto duly authorized, and the City of Roseville has caused these presents to be executed on its behalf by its City Manager and attested by its City Clerk, each being thereunto duly authorized, all as of the day and year first above written.

CITY OF ROSEVILLE

By: W. Craig Robinson
City Manager

ATTEST:

By: Sonia Orozco
City Clerk

APPROVED AS TO FORM
Robert R Schmidt
By: Sr. Dep. City Attorney, for
City Attorney

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: W. Craig Robinson
Executive Director

ATTEST:

By: Sonia Orozco
Secretary

EXHIBIT A

DAILY CONTRACT QUANTITY

Month	Daily Contract Quantity (MMBtu/Day)
January	6,000
February	5,000
March	2,500
April	2,500
May	3,000
June	4,500
July	12,000
August	12,000
September	10,000
October	6,000
November	8,000
December	5,500

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF MERRILL LYNCH COMMODITIES, INC.

I, Richard Jeffers, an authorized representative of Merrill Lynch Commodities, Inc. (the "Gas Supplier"), HEREBY CERTIFY the following:

1. that the conditions set forth in Sections 22.3.1 and 22.3.3 of the Agreement for Purchase and Sale of Natural Gas, dated January 24, 2007 (the "Prepaid Gas Agreement"), between Gas Supplier and the Roseville Natural Gas Financing Authority have been fulfilled;

2. that attached hereto as Exhibit A is a certified governance document, evidencing Gas Supplier's authorization of the execution, delivery and performance of the Prepaid Gas Agreement and all associated agreements and instruments; and

Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Trust Indenture.

Dated: February 6, 2007

MERRILL LYNCH COMMODITIES, INC.

By: _____

MERRILL LYNCH COMMODITIES, INC.

CERTIFIED RESOLUTION
and
INCUMBENCY CERTIFICATE

I, the undersigned, hereby certify that I am the duly elected and qualified Assistant Secretary of Merrill Lynch Commodities, Inc., a Delaware corporation ("MLCI" and "Corporation").

I further certify that the following is a full, true and correct copy of resolutions adopted by unanimous written consent of the Board of Directors of MLCI. I further certify that the said resolutions are still in full force and effect and have not been amended or revoked. I further certify that each individual identified below is a Designated Signatory authorized to execute documents as set forth in the resolutions and that the signature set forth by the Designated Signatory's typed name is the true and genuine signature of said individual.

RESOLVED, that any persons designated from time to time by the Vice President, Treasurer or more senior officer of the Corporation be, and each of such persons hereby is, authorized:

(i) to enter into, on behalf of the Corporation, agreements and transactions (including options thereon) that (A) provide, in whole or in part, on a firm or contingent basis, for the purchase of sale of, or that are based on the value of, one or more commodities (including without limitation electricity and natural gas), securities, currencies, interest or other rates, indices, quantitative measures, or other financial or economic interests or real or personal property of any kind, (B) involve any payment or delivery that is dependent on the occurrence or non-occurrence of any event associated with a potential financial, economic, or commercial consequence, (C) constitute any and all similar products, (D) constitute any borrowing or lending transactions related to any of the foregoing, or (E) involve any combination or permutation of any of the foregoing (the "Product Transactions");

(ii) to enter into any transactions with the purpose of hedging the obligations of the Corporation or positions of the Corporation in respect of Product Transactions, including, but not limited to, the purchase or sale of securities or commodities, options to purchase or sell securities or commodities, contracts for future delivery of securities or commodities or options on such contracts, or spot or forward foreign exchange transactions (the "Hedging Transactions"); and

(iii) to enter into any and all ancillary and related agreements (including by way of example only pledge agreements, confidentiality agreements and third-party custodian, transmission and other service agreements) that are necessary or appropriate to effect any of the foregoing (the "Related Agreements");

RESOLVED, that any Vice President, Treasurer or more senior officer of the Corporation, and any person (each, a "Designated Signatory") designated by any such officer, be, and each of such persons hereby is, authorized to execute and deliver agreements, contracts, instruments or other documentation evidencing the Product Transactions, the Hedging Transactions and the Related Agreements (the "Trading Documentation"), including master agreements relating thereto; and

RESOLVED, that all Trading Documentation executed and delivered prior to the date hereof by any officer of the Corporation then serving, or any person designated to execute and deliver such Trading Documentation by any officer of the Corporation then serving, be, and it hereby is ratified and approved, and that all such designations shall remain in full force and effect until revoked or superseded by a subsequent designation, but in any event only for so long as the relevant designated person shall be a full time employee of the Corporation or any of its affiliates.

Richard H. Jefferis, Jr. _____

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Corporation this 24th day of January, 2007.

_____
Beverly McGinnis
Assistant Secretary

Document Name:MLCI/IncumbCertif/AuthSignatories
Document #: 137644 v7

CERTIFICATE OF MERRILL LYNCH COMMODITIES, INC.

RE: $209,350,000 Roseville Natural Gas Financing Authority, Gas Revenue Bonds Series 2007

WHEREAS, this certificate is prepared pursuant to Section 6(c)(xi) of the Bond Purchase Contract dated as of January 24, 2007 between Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchaser of the captioned Bonds, and the Roseville Natural Gas Financing Authority, as the issuer of the captioned Bonds (the "Bond Purchase Contract"); and

WHEREAS, capitalized terms used in this Certificate and not otherwise defined herein shall have the meanings assigned to them in the Bond Purchase Contract.

In connection with the issuance and sale of the captioned Bonds, the undersigned hereby states and certifies that:

1. He/she is a duly authorized representative of Merrill Lynch Commodities, Inc., is familiar with the facts certified herein and is authorized and qualified to certify the same; and

2. The information contained in the Official Statement relating to Merrill Lynch Commodities, Inc. was as of the date of the Official Statement, and at all times subsequent to such date, including the date of the Closing, is, true and correct in all material respects.

Dated: February 6, 2007

MERRILL LYNCH COMMODITIES, INC.

By: _____

Title: Managing Director

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF MERRILL LYNCH & CO., INC.

I, Patricia Kropiewnicki, an authorized representative of Merrill Lynch & Co., Inc. (the "Guarantor"), HEREBY CERTIFY the following:

1. that the conditions set forth in Section 22.3.2 of the Agreement for Purchase and Sale of Natural Gas, dated January 24, 2007 (the "Prepaid Gas Agreement"), between Merrill Lynch Commodities, Inc. (the "Gas Supplier") and the Roseville Natural Gas Financing Authority (the "Authority") have been fulfilled; and

2. that attached hereto as Exhibit A is a certified governance document, evidencing the Guarantor's authorization of the execution, delivery and performance of the guarantee issued by the Guarantor to the Authority, securing the Gas Supplier's payment obligations pursuant to the Prepaid Gas Agreement.

Dated: February 2, 2007

MERRILL LYNCH & CO., INC.

By: _____

Exhibit A

CERTIFICATE OF INCUMBENCY

I, Pia Thompson, an Assistant Secretary of MERRILL LYNCH & CO., INC., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), do hereby certify that (i) the Credit Support Policy, attached hereto as Exhibit A ("Credit Support Policy"), was approved on March 4, 2005 by the Chief Executive Officer of the Corporation; (ii) the Certificate of Designation dated August 1, 2006 attached hereto as Exhibit B, designating Patricia A. Kropiewnicki as authorized to act pursuant to the Credit Support Policy, was duly executed by Christopher Hayward, Treasurer of the Corporation at that time (the "Certificate"); (iii) Patricia A. Kropiewnicki is authorized to execute and deliver, on behalf of the Corporation, any and all guarantees by the Corporation of the obligations of Merrill Lynch Commodities, Inc. and its subsidiaries (together, "MLCI"), in connection with MLCI's transactions related to commodities exchanges, power pools, transmission and transportation service agreements, bilateral commodities trades and master agreements; and (iv) set forth below is a true and correct copy of the signature of Patricia A. Kropiewnicki.

Patricia A. Kropiewnicki

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation this 6th day of February 2007.

(Corporate Seal)

Name: Pia Thompson
Title: Assistant Secretary

MERRILL LYNCH & CO., INC.

Assistant Secretary's Certificate

I, Pia Thompson, an Assistant Secretary of MERRILL LYNCH & CO., INC., a corporation organized and existing under the laws of the State of Delaware, United States of America, (the "Corporation") DO HEREBY CERTIFY that:

Attached hereto as Exhibit A is a true and correct copy of the Restated Certificate of Incorporation of the Corporation, as amended, on file in the office of the Secretary of State of the State of Delaware as of the date hereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation this 6th day of February 2007.

(CORPORATE SEAL)

Pia Thompson

Pia Thompson
Assistant Secretary

EXHIBIT A

3.09 – Credit Support Policy

Any credit support of an entity's obligation (regardless of such entity's affiliation with ML & Co.) to a third party, including, but not limited to, debt issues, borrowings, loans and letters of credit, require approval by any of the following officers of ML & Co. (any such officer, a "Designated Officer"):

- Assistant Treasurer;
- Treasurer;
- Deputy Chief Financial Officer;
- Chief Financial Officer;
- Chief Operating Officer;
- President;
- Chief Executive Officer.

Approval by a Designated Officer is required whether or not the requested credit support is in respect of "*business in the ordinary course.*" The determination of "*business in the ordinary course*" shall be made by the authorizing Designated Officer, in consultation with Corporate Law. The authorizing Designated Officer may, at such Designated Officer's discretion, consult with, or seek additional approval of, any officer more senior than such Designated Officer.

The following shall *not* be considered "*business in the ordinary course*":

- Any transaction that requires prior approval of the New Product Review Committee, Corporate Transaction Review Committee, Structured Product Committee, Special Structured Product Committee or any similar reviewing body.
- Any credit support in respect of an underlying obligation of an entity that is not, directly or indirectly, a subsidiary of ML & Co. Any entity not consolidated in the financial statements of ML & Co. shall not be considered a subsidiary unless determined otherwise by the Designated Officer in consultation with members of the Accounting Policy, Corporate Reporting and Corporate Law groups.

The following are required for all credit support requests for which the requested credit support is **not** in respect of "*business in the ordinary course*":

- A requesting Group Executive must determine and confirm to the ML & Co. Treasury Group that the
  - credit support enhances an *approved* business,

- credit support is necessary for competitive, regulatory, or other business reasons,
- Business Unit is in compliance with limits or authorities governing its business,
- Business Unit has considered alternatives to the proposed credit support and determined that the proposed credit support is the most cost-effective of the alternatives, and
- Business Unit has quantified potential exposures to ML & Co., including any adverse regulatory capital impacts, which may arise as a direct result of issuing the proposed credit support.

- Such requests for credit support must be *signed* by requesting Group Executive or such Group Executive's designee. The Group Executive generally shall be the Executive Vice President for the business unit but, under circumstances determined appropriate by the ML & Co. Treasury Group, may be another senior officer of the relevant Business Unit. Any designations by a Group Executive must be in writing and approved by ML & Co.'s Treasury Group.
- All requests for credit support must be submitted in writing to the ML & Co. Treasury Group (regardless of the entity that is proposed to provide the credit support). A form for such requests, which may be revised or amended from time to time, may be obtained from ML & Co.'s Treasury Group or Corporate Law.

Wherever possible, credit support should be provided by subsidiaries of ML & Co. rather than by ML & Co. directly. Credit support by ML & Co. that is approved in accordance with the foregoing may be executed by the Assistant Treasurer, Treasurer or other Designated Officer of ML & Co. or any designee that is granted authority in writing to execute such forms of credit support as may be stated in such designation by an Assistant Treasurer, Treasurer or other Designated Officer of ML & Co.. pursuant to this policy.

Credit support issued pursuant to predecessor policies (including any category or series of transactions approved thereunder) shall remain in full force and effect.

The text of any credit support for which approval is sought must be reviewed and approved by Treasury and Corporate Law, which may rely on legal counsel for the responsible business unit.

Credit support, such as "comfort letters," that may not give rise to a legal obligation or contingent liability of the entity issuing such credit support shall nonetheless be considered as "credit support" for purposes of this Credit Support Policy.

MERRILL LYNCH & CO., INC.
OMNIBUS CERTIFICATE OF DESIGNATION
RELATED TO AUTHORITY OF THE TREASURER

The undersigned, Christopher Hayward, Treasurer of Merrill Lynch & Co., Inc. (the "Corporation"), hereby designates the persons listed on each of the attached Exhibits for the performance of the actions described in each Exhibit. This Omnibus Certificate of Designation contains the following Exhibits:

Exhibit D..... Concerning Guarantees of Merrill Lynch Commodities, Inc.

This Omnibus Certificate of Designation (i) is dated August 1, 2006, (ii) effective as of the date hereof, supersedes all prior certificates, (iii) ratifies the actions taken prior to the date hereof by the persons authorized pursuant hereto (in each case relating to the matters described herein) and (iv) is valid until the earlier of the time it is superseded by any subsequent certificate or, as to each such authorized person, until such time as such person is no longer a member of the Treasury department or is otherwise no longer employed by Merrill Lynch or any of its affiliates.

Christopher B. Hayward
Treasurer

EXHIBIT D

CERTIFICATE OF DESIGNATION CONCERNING GUARANTEES OF MERRILL LYNCH COMMODITIES, INC.

Pursuant to the Guarantee Policy of Merrill Lynch & Co., Inc. (the "Corporation"), the following individuals, in lieu of all other designees, are authorized to execute and deliver on behalf of the Corporation, to the same extent as the Treasurer, any and all guarantees by the Corporation of the obligations of Merrill Lynch Commodities Inc., and its subsidiaries (together, "MLCI"), in connection with MLCI's transactions related to commodities exchanges, power pools, transmission and transportation service arrangements, bilateral commodities trades and master agreements, and such other commitments with respect to MLCI as have been approved for guarantees under the Corporation's Guarantee Policy:

Matthew Hale
Patricia A. Kropiewnicki
Noreen M. O'Hanlon

CERTIFICATE OF MERRILL LYNCH & CO., INC.

RE: $209,350,000 Roseville Natural Gas Financing Authority, Gas Revenue Bonds Series 2007

WHEREAS, this certificate is prepared pursuant to Section 6(c)(xi) of the Bond Purchase Contract dated as of January 24, 2007 between Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchaser of the captioned Bonds, and the Roseville Natural Gas Financing Authority, as the issuer of the captioned Bonds (the "Bond Purchase Contract"); and

WHEREAS, capitalized terms used in this Certificate and not otherwise defined herein shall have the meanings assigned to them in the Bond Purchase Contract.

In connection with the issuance and sale of the captioned Bonds, the undersigned hereby states and certifies that:

1. He/she is a duly authorized representative of Merrill Lynch & Co, Inc., is familiar with the facts certified herein and is authorized and qualified to certify the same; and

2. The information contained in the Official Statement relating to Merrill Lynch & Co., Inc. was as of the date of the Official Statement, and at all times subsequent to such date, including the date of the Closing, is, true and correct in all material respects.

Dated: February 2, 2007

MERRILL LYNCH & CO., INC.

By: _____

Title: Assistant Treasurer

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF SECRETARY

I, Sonia Orozco, Secretary of the Roseville Natural Gas Financing Authority (the "Authority"), HEREBY CERTIFY as follows:

1. that attached hereto as Exhibit A is a true and complete copy of Resolution No. 1-07, duly adopted by the Board of Directors of the Authority at a meeting duly called and duly held on January 17, 2007 at which meeting a quorum was present and acting throughout. Such resolution has not been amended, modified, supplemented, rescinded or repealed and is in full force and effect in the form attached hereto as Exhibit A;

2. that attached hereto as Exhibit B is a copy of the Joint Exercise of Powers Agreement, dated as of November 1, 2006 (the "Joint Powers Agreement"), by and between the City of Roseville and the Redevelopment Agency of the City of Roseville. Said copy is a true, complete and correct copy of said Joint Powers Agreement and said Joint Powers Agreement has not been amended, modified, supplemented, rescinded or repealed and is in full force and effect in the form attached hereto as Exhibit B; and

The Remainder of this Page is Intentionally Left Blank.

3. that, to the best of my knowledge, after due inquiry, all filings required to be made by the Authority under Articles 1 through 4 (commencing with section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code on or prior to the date hereof have been made with the Secretary of State of the State of California.

IN WITNESS WHEREOF. I have hereunto set my hand this 6th day of February, 2007.

Sonia Orozco
Secretary

Exhibit A

RESOLUTION NO. 1-07

RESOLUTION NO. 1-07

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE ROSEVILLE NATURAL GAS FINANCING AUTHORITY APPROVING AN AGREEMENT FOR PURCHASE AND SALE OF NATURAL GAS; APPROVING A NATURAL GAS SUPPLY AGREEMENT; AUTHORIZING AND APPROVING THE ISSUANCE OF NOT TO EXCEED $235,000,000 AGGREGATE PRINCIPAL AMOUNT OF REVENUE BONDS; APPROVING THE TRUST INDENTURE PURSUANT TO WHICH SUCH BONDS ARE TO BE ISSUED; APPROVING DISCLOSURE DOCUMENTS AND A BOND PURCHASE CONTRACT IN CONNECTION WITH SUCH BONDS; APPROVING A NATURAL GAS PRICE SWAP AGREEMENT AND AUTHORIZING A NATURAL GAS PRICE SWAP TRANSACTION; AND AUTHORIZING AND APPROVING OTHER DOCUMENTS AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION WITH THE ACQUISITION AND SALE OF NATURAL GAS AND THE ISSUANCE, SECURING AND SALE OF SUCH BONDS

WHEREAS, the City of Roseville (the "City") owns and operates a municipal electric system for supplying the inhabitants, businesses and industries within the City with electricity (the "Electric System"); and

WHEREAS, certain electric generating units which will be a part of the Electric System (the "Units") will use natural gas as fuel; and

WHEREAS, it is necessary and in the public interest to provide natural gas as fuel for the Units on terms which allow the Electric System to continue to charge rates which promote economic development within the City; and

WHEREAS, the Roseville Natural Gas Financing Authority (the "Authority") has been established as a separate entity under the California Joint Exercise of Powers Act to undertake projects and programs that promote economic development within the City, including implementing projects and programs to assist the City in procuring natural gas for electric generating units which are or will be a part of the Electric System; and

WHEREAS, such projects and programs may include, among other things, the Authority's issuance of bonds pursuant to any applicable bond law, the entry into natural gas price swap agreements, the entry into agreements with respect to the purchase of natural gas by the Authority and the sale of natural gas to the City; and

WHEREAS, the Authority proposes to enter into the Agreement for Purchase and Sale of Natural Gas (such Agreement for Purchase and Sale of Natural Gas, on file with the City Clerk as Exhibit A with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to as the "Prepaid Gas Agreement"), between the Authority and Merrill Lynch Commodities, Inc. (the "Gas Supplier") to acquire natural gas (the "Prepaid Gas") and then to sell the Prepaid Gas to the City pursuant to the Natural Gas Supply Agreement (such Natural Gas Supply Agreement, on file with the City Clerk as Exhibit B with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to as the "Supply Agreement"), between the Authority and the City; and

WHEREAS, the Authority further proposes to finance the prepayment of the Prepaid Gas required by the Prepaid Gas Agreement through the issuance of its Gas Revenue Bonds, Series 2007 (the "Bonds") in an aggregate principal amount not to exceed $235,000,000; and

WHEREAS, the Bonds are to be issued pursuant to an Trust Indenture (such Trust Indenture, on file with the City Clerk as Exhibit C with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to as the "Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"); and

WHEREAS, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as underwriter (the "Underwriter"), has submitted a proposal to purchase the Bonds in the form of a Bond Purchase Contract (such Bond Purchase Contract, on file with the City Clerk as Exhibit D, with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to herein as the "Bond Purchase Contract"); and

WHEREAS, in connection with the offering and sale of the Bonds, there has been prepared a disclosure document in the form of a Preliminary Official Statement (such Preliminary Official Statement on file with the City Clerk as Exhibit E, with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to herein as the "Preliminary Official Statement"); and

WHEREAS, this Board of Directors desires to authorize certain officers of the Authority to enter into an natural gas price swap agreement with respect to the Supply Agreement as authorized by law, including Section 5922 of the California Government Code; and

WHEREAS, such natural gas price swap agreement will be in the form of the ISDA Master Agreement, as supplemented by the Schedule to the Master Agreement, a Credit Support Annex and a Confirmation each on file with the City Clerk as Exhibit F with such changes, insertions and omissions as are made pursuant to this Resolution, being referred to herein as the "Swap Agreement"), each between the Authority JP Morgan Chase Bank, N.A. (the "Counterparty"); and

WHEREAS, to secure the City's obligation to pay the Contract Price under the Supply Agreement, Financial Security Assurance Inc. ("FSA") has offered to provide a financial guaranty insurance policy (the "Customer Insurance Policy"); and

WHEREAS, after having reviewed and considered the Gas Supplier to supply the Prepaid Gas on the terms and conditions contained in the Prepaid Gas Agreement, the proposal of the Counterparty to enter into the Swap Agreement, the proposal of the Underwriter to purchase the Bonds on the terms and conditions contained in the Bond Purchase Contract, the proposal of FSA to provide the Customer Insurance Policy, this Board of Directors now desires to authorize: (i) the issuance of the Bonds; (ii) the execution, delivery and performance of its obligations under each of the Prepaid Gas Agreement, the Supply Agreement, the Indenture, the Swap Agreement and the Bond Purchase Contract and the other documents and transactions approved hereby; and (iii) the execution of such instruments and the performance of such acts as may be necessary or desirable to effect the issuance and sale of the Bonds and the other actions contemplated by this Resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE ROSEVILLE NATURAL GAS FINANCING AUTHORITY, AS FOLLOWS:

Section 1. This Board of Directors hereby finds and determines that the recitals contained hereinabove are true and correct.

Section 2. The Prepaid Gas Agreement, on file with the City Clerk as Exhibit A and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Chair of this Board of Directors, the Vice Chair of this Board of Directors and the Executive Director of the Authority (each an "Authorized Officer"), acting singly, is hereby authorized to execute, and deliver to the Gas Supplier, the Prepaid Gas Agreement in the name of and on behalf of the Authority, on file with the City Clerk as Exhibit A with such changes, insertions and deletions (subject to the provisions of the next sentence) as may be approved by the Authorized Officer executing the Prepaid Gas Agreement, said execution being conclusive evidence of such approval, and the Secretary of the Authority (the "Secretary") is hereby authorized to attest thereto. The term of the Prepaid Gas Agreement shall not extend beyond December 1, 2030; the amount of natural gas originally scheduled to be purchased under the Prepaid Gas Agreement shall not be more than 12,000 MMBtus in any one day; and the Prepayment under the Prepaid Gas Agreement shall not exceed $225,000,000.

Section 3. The Supply Agreement, on file with the City Clerk as Exhibit B and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized to execute, and deliver to the City, the Supply Agreement in the name of and on behalf of the Authority, on file with the City Clerk as Exhibit B with such changes, insertions and deletions (subject to the provisions of the next sentence) as may be approved by the Authorized Officer executing the Supply Agreement, said execution being conclusive evidence of such approval, and the Secretary is hereby authorized to attest thereto. The term of the Supply Agreement shall not extend beyond December 1, 2030; the amount of natural gas originally scheduled to be purchased under the Supply Agreement shall not be more than 12,000 MMBtus in any one day; and the Contract Price for natural gas delivered under the Supply Agreement in any Delivery Month shall not be less than the Index Price per MMBtu for such Delivery Month less a discount not exceeding $0.75.

Section 4. The Indenture, on file with the City Clerk as Exhibit C and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized to execute, and deliver to the Trustee, the Indenture in the name of and on behalf of the Authority, on file with the City Clerk as Exhibit C with such changes, insertions and deletions as may be approved by the Authorized Officer executing the Indenture, said execution being conclusive evidence of such approval, and the Secretary is hereby authorized to attest thereto.

Section 5. The issuance of the Bonds on the terms and conditions set forth in the Indenture, but in all events subject to the limitations specified in this Resolution, is hereby authorized and approved. The aggregate principal amount of the Bonds shall not exceed Two Hundred Thirty-Five Million Dollars ($235,000,000). The Bonds will be dated, will bear interest at the rates, will mature on the date or dates provided in, will be issued in the form provided in, will have the Sinking Fund Installments specified in, will be subject to redemption as provided in, and will have such other terms as shall be provided in, the Indenture as the same is completed as provided in this Resolution.

Section 6. The Authorized Officer executing the Indenture is hereby authorized, subject to the limitations set forth in this Resolution but without limiting the Authorized Officer's authority to determine other terms of the Indenture not specifically addressed in this Resolution, to determine the following: (i) the maturity date or dates of the Bonds (but no Bond shall mature later than December 31, 2031); (ii) the principal amount of the Bonds maturing on each maturity date; (iii) the Sinking Fund Installments, if any, for the Bonds of any maturity or maturities; (iv) the redemption provisions for the Bonds; and (v) the stated interest rate to be borne by the Bonds of each maturity; provided that no Bond shall have a stated interest rate of in excess of 8 percent (8%) per annum.

Section 7. The Bond Purchase Contract, in substantially the form on file with the City Clerk as Exhibit D and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized to execute, and deliver to the Underwriter, the Bond Purchase Contract in the name of and on behalf of the Authority on file with the City Clerk as Exhibit D with such changes, insertions and deletions as may be approved by the Authorized Officer executing the Bond Purchase Contract and as are consistent with this Section and the determinations of the terms of the Bonds made pursuant to this Resolution, said execution being conclusive evidence of such approval.

The Authorized Officer executing the Bond Purchase Contract is hereby authorized to determine: (i) the purchase price to be paid for the Bonds under the Bond Purchase Contract; provided, however, that the aggregate underwriter's discount (not including original issue discount) for the Bonds shall be not more than two percent of the aggregate principal amount of the Bonds; and (ii) any original issue discount for the Bonds which shall not exceed five percent of the aggregate principal amount of the Bonds. The sale of the Bonds to the Underwriter, on the terms and conditions contained in the Bond Purchase Contract, as the same may be completed in accordance with the provisions of this Resolution, is hereby approved and authorized.

Section 8. The Preliminary Official Statement, on file with the City Clerk as Exhibit E and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized to cause the Preliminary Official Statement to be delivered to the Underwriter, on file with the City Clerk as Exhibit E with such changes, insertions and deletions as may be approved by the Authorized Officer delivering the Preliminary Official Statement (including without limitation the insertion of terms of the Bonds), said delivery being conclusive evidence of such approval. The use of the Preliminary Official Statement in connection with the offering and sale of the Bonds by the Underwriter is hereby authorized and approved. Each of the Authorized Officers, acting singly, is hereby authorized to determine that the Preliminary Official Statement is deemed final for purposes of Rule 15c2-12.

The preparation and delivery to the Underwriter of a final Official Statement (the "Official Statement") relating to the Bonds, and its use by the Underwriter in connection with the offering and sale of the Bonds, be and the same is hereby approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement with such changes, insertions and deletions as may be approved by the Authorized Officer executing the Official Statement (including without limitation the insertion of the terms of the Bonds), said execution being conclusive evidence of such approval. Each of the Authorized Officers, acting singly, is hereby authorized to execute the Official Statement, in the name and on behalf of the Authority, and

thereupon to cause the Official Statement to be delivered to the Underwriter. Each of the Authorized Officers, acting singly, is hereby authorized to approve and execute any amendment or supplement to the Official Statement contemplated by the Bond Purchase Contract, in the name and on behalf of the Authority, and thereupon to cause such amendment or supplement, to be delivered to the Underwriter.

Section 9. The Swap Agreement, in substantially the form on file with the City Clerk as Exhibit F and made a part hereof as though set forth in full herein, is hereby approved. Each of the Authorized Officers acting singly, is hereby authorized to execute, and deliver to the Counterparty, the Swap Agreement in the name of and on behalf of the Authority, on file with the City Clerk as Exhibit F with such changes, insertions and deletions as may be consistent with this Resolution and the determinations made pursuant hereto and as may be approved by the Authorized Officer executing such Swap Agreement, said execution being conclusive evidence of such approval, and the Secretary is hereby authorized to attest thereto.

Section 10. Subject to the provisions of the next sentence, in connection with the Supply Agreement, each of the Authorized Officers, acting singly, is hereby authorized to enter into the Confirmation under the Swap Agreement and to accept, execute and deliver (and the Secretary is hereby authorized to attest) such Confirmation, said execution by an Authorized Officer being exclusive evidence of approval of the Confirmation. The following limitations shall apply to the Confirmation: (i) the term of the transaction under the Confirmation shall not exceed the stated expiration date of the Supply Agreement, (ii) the monthly notional amount of the transaction under the Confirmation for each Delivery Month shall not exceed the product of the Daily Contract Quantity for each day in such Delivery Month times the number of days in such Delivery Month, (iii) the fixed payments to be received by the Authority under the transaction under the Confirmation with respect to each Delivery Month shall not be less than the amount to be deposited in the Debt Service Fund (as defined in the Indenture) in the following month, (iv) the variable payments to be paid by the Authority under the transaction under the Confirmation with respect to each Delivery Month shall not exceed the Index Price for such Delivery Month, and (v) all payment obligations of the Authority under the transaction under the Confirmation shall be special obligations of the Authority payable solely from the Revenues (as defined in the Indenture) and available for such purpose as and to the extent provided in the Indenture.

Section 11. This Board of Directors hereby finds and determines that the Transaction authorized by this Resolution is designed to reduce the amount or duration of rate or spread risk when used in combination with the issuance of the Bonds, and, in particular, to reduce the rate or spread risk between the variable payments to be made by the City under the Supply Agreement (which are pledged under the Indenture to secure the Bonds) and the fixed interest cost of the Bonds.

Section 12. Each of the Authorized Officers, acting singly, is authorized and directed, for and in the name of the Authority, to purchase the Customer Insurance Policy from FSA; provided that the cost of the Customer Insurance Policy shall not exceed $250,000.

Section 13. The Funding and Assignment Agreement (the "Funding and Assignment Agreement"), between the Authority and Merrill Lynch Commodities, Inc., relating to the advancement of funds by Merrill Lynch Commodities, Inc. to cure deficiencies in certain funds established by the Indenture, in substantially the form on file with the City Clerk as

Exhibit G and made a part hereof as though set forth in full herein, is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized to execute, and deliver to Merrill Lynch Commodities, Inc. the Funding and Assignment Agreement in the name of and on behalf of the Authority on file with the City Clerk as Exhibit G, with such changes, insertions and deletions as may be consistent with this Resolution and the determinations made pursuant hereto and as may be approved by the Authorized Officer executing such Funding and Assignment Agreement, said execution being conclusive evidence of such approval, and the Secretary is hereby authorized to attest thereto.

Section 14. The Chair of this Board of Directors, the Vice Chair of this Board of Directors, the Secretary, and any other proper official, officer or employee of the Authority, acting singly, be and each of them hereby is authorized to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or convenient in carrying out the transactions contemplated by the documents and instruments approved or authorized by this Resolution, including, without limitation, entering into agreements and/or directing the Trustee to enter into agreements to purchase qualified investments for the moneys in the funds held under the indenture, making any determinations or submission of any documents or reports which are required by any rule or regulation of any governmental entity in connection with the issuance and sale of the Bonds and the authorization, execution, delivery of, and performance by the Authority of its obligations under, the documents, instruments and transactions approved or authorized by this Resolution.

Section 15. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the form of the Supply Agreement on file with the City Clerk as Exhibit B.

Section 16. This Resolution shall take effect upon its adoption and thereupon and thereafter the same shall be in full force and effect.

PASSED AND ADOPTED by the Board of Directors of the Roseville Natural Gas Financing Authority this 17th day of January, 2007, by the following vote on roll call:

AYES MEMBERS	Allard, Roccucci, Garcia, Garbolino, Gray
NOES MEMBERS	None
ABSENT MEMBERS	None

CHAIR

ATTEST:

SECRETARY

The foregoing instrument is a correct copy of the original on file in this office.
ATTEST:
City Clerk of the City of Roseville, California
DEPUTY CLERK

Exhibit B

JOINT POWERS AGREEMENT

JOINT EXERCISE OF POWERS AGREEMENT

By and Between

CITY OF ROSEVILLE

and

REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE

Dated as of November 1, 2006

Relating to the

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

JOINT EXERCISE OF POWERS AGREEMENT

THIS JOINT EXERCISE OF POWERS AGREEMENT, dated as of November 1, 2006, by and between the City of Roseville, a municipal corporation and a chartered city duly organized and existing under the laws of the State of California and its Charter, and the Redevelopment Agency of the City of Roseville, a public body corporate and politic duly organized and existing under the laws of the State of California:

WITNESSETH

WHEREAS, pursuant to the Joint Powers Act (capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Section 1 hereof) two or more public agencies may enter into an agreement to establish an agency to exercise any power common to the contracting parties; and

WHEREAS, each of the Parties is a "public agency" as that term is defined in Section 6500 of the Joint Powers Act; and

WHEREAS, each of the Parties is empowered to promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base; and

WHEREAS, the City owns and operates the Electric System for supplying the inhabitants, businesses and industries within the City with electricity; and

WHEREAS, certain electric generating units which are or will be part of the Electric System use natural gas as fuel; and

WHEREAS, the Electric System provides electricity at rates which promote economic development within the City; and

WHEREAS, it is necessary and in the public interest to provide natural gas to the Electric System on terms which allow such utility to continue to charge rates which promote economic development within the City; and

WHEREAS, it is the desire of the Parties to establish the Roseville Natural Gas Financing Authority as a separate entity under the Joint Powers Act and this Agreement to undertake projects and programs that promote economic development within the City, including projects and programs to assist the City in procuring natural gas to be used as fuel for electric generating units which are or will be part of the Electric System; and

NOW, THEREFORE, the Parties, for and in consideration of the mutual promises and agreements herein contained, do agree as follows:

SECTION 1. DEFINITIONS.

Unless the context otherwise requires, the following terms shall have the meanings set forth below for all purposes of this Agreement:

"Agreement" means this Joint Exercise of Powers Agreement, as the same may be amended and supplemented form time to time.

"Authority" means the Roseville Natural Gas Financing Authority created and established pursuant to this Agreement.

"Board" means the Board of Directors established as the governing body of the Authority pursuant to Section 4(B).

"Bond Act" means Article 2 and Article 4 of the Joint Powers Act, and any other State legislation whether currently in force or hereafter enacted, which authorizes the Authority to issue Bonds.

"Bonds" means bonds, notes, or other evidences of indebtedness issued by the Authority, or certificates of participation in leases or other agreements executed and delivered at the direction of the Authority, regardless of their structure, name or the statutory authority for their issuance.

"Brown Act" means the Ralph M. Brown Act, constituting Sections 54950 through 54963 of the California Government Code.

"City" means the City of Roseville, California.

"Chair" means the Chair of the Board pursuant to Section 4 (C)(1).

"Credit Enhancement" means: (i) with respect to Bonds, a municipal bond insurance policy, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of the principal of and interest on such Bonds; and (ii) with respect to a Gas Agreement, a Public Finance Contract and a Risk Management Contract, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of all or any portion of the payments under such Gas Agreement, Public Finance Contract or Risk Management Contract.

"Director" means a member of the Board in office pursuant to Section 4(B).

"Electric System" means the municipal electric utility owned and operated by the City, including all electric generation, distribution, transmission, administrative and other properties and facilities, and all contract rights, currently included in such municipal electric utility or hereafter acquired.

"Executive Director" means the Executive Director of the Authority pursuant to Section 4(C)(1).

"Fiscal Year" means the fiscal year of the Authority being, until changed by resolution of the Board, the period from July 1 to and including the following June 30 except for the first Fiscal Year which shall be the period from the effective date of this Agreement to June 30, 2007.

"Gas Agreement" means an agreement pursuant to which the Authority purchases natural gas or sells natural gas.

"Indenture" means an instrument providing for the issuance of Bonds and specifying the terms and conditions thereof and includes an indenture of trust, a trust agreement, a resolution, an order or any other instrument or proceeding.

"Joint Powers Act" means the Joint Exercise of Powers Act constituting Chapter 5 of Division 7 of Title 1 of the California Government Code.

"Liquidity Support" means a letter of credit, line of credit, standby bond purchase agreement or other surety or guarantee instrument guaranteeing, subject to the conditions thereof, the payment when due of the purchase price of Bonds tendered for purchase in accordance with the applicable Indenture. A Credit Enhancement with respect to Bonds may also constitute Liquidity Support if it guarantees the payment of the purchase price of tendered Bonds as well as the principal of and interest on Bonds.

"Party" means each of the City and the Redevelopment Agency.

"Public Finance Contract" means a contract to place Bonds or investments of the Authority on the interest rate, currency, cash-flow or other basis desired by the Authority, including an interest rate swap agreement, a currency swap agreement, a forward payment conversion agreement, a futures agreement, a contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, a contract to exchange cash flows or a series of payments, and a contract to hedge payment, currency, rate, spread or similar exposure, including interest rate floors and caps, swaptions, options, puts and calls authorized by Section 5920 *et seq.* of the California Government Code or any other legislative authority whether currently in effect or hereafter enacted.

"Redevelopment Agency" means the Redevelopment Agency of the City of Roseville.

"Risk Management Contract" means a forward contract, a futures contract, a put, call or swap agreement, an option or other hedging contract or arrangement to place the price of natural gas purchased or sold by the Authority on the basis desired by the Authority.

"Secretary" means the Secretary of the Board pursuant to Section 4 (C)(1).

"State" means the State of California.

"Treasurer" means the treasurer and auditor of the Authority pursuant to Section 4 (C)(2).

"Vice Chair" means the Vice Chair of the Board pursuant to Section 4 (C)(1).

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neutral genders. Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including districts, agencies and other public bodies, as well as natural persons. Unless otherwise indicated, references in this Agreement to paragraphs, subsections, and Sections are to such paragraphs, subsections, and Sections of this Agreement. Unless the context requires otherwise, the terms "herein," "hereof," "hereunder" and any similar terms, as used in this Agreement, shall refer to this Agreement as a whole and not to any particular provisions of this Agreement. Defined terms shall include any variant of the terms set forth in this Section. The term "including" shall be construed to mean "including without being limited to."

SECTION 2. PURPOSE.

It is the purpose of this Agreement to establish, pursuant to the provisions of the Joint Powers Act, an agency for and with the purpose of undertaking projects and programs that promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base. Such projects and programs include assisting the City in procuring natural gas to be used as fuel for electric generating units which are part of the Electric System. Such assistance may include, among other things, the Authority's issuance of Bonds pursuant to any applicable Bond Law, providing Credit Enhancement and Liquidity Support for Bonds, the entry into Gas Agreements, Public Finance Contracts and/or Risk Management Contracts and providing Credit Enhancement for all or any portion of such Gas Agreements, Public Finance Contracts and Risk Management Contracts. Such purpose will be accomplished and said powers exercised in the manner hereinafter set forth.

SECTION 3. TERM.

This Agreement shall become effective in accordance with Section 18 hereof as of the date first above written and shall continue in full force and effect for a period of sixty (60) years from such date, or until such earlier time as it is terminated by a writing signed by all the Parties; provided, however, that, notwithstanding the foregoing, this Agreement shall not expire or be terminated until the date on which: (i) all Bonds issued by the Authority shall have been paid or deemed paid in accordance with the applicable Indenture; (ii) all contracts and agreements of the Authority, including all Gas Agreements, Public Finance Contracts, Risk Management Contracts, contracts and agreements relating to Credit Enhancement and Liquidity Support, (a) shall have expired or been otherwise terminated and all amounts owed by the Authority thereunder have been paid or (b) the Authority's obligations thereunder have been transferred or assigned to another party in accordance with the terms of such contracts and agreements; and (iii) all other indebtedness and liabilities incurred by the Authority shall have been paid.

SECTION 4. THE AUTHORITY.

A. CREATION OF AUTHORITY.

Pursuant to the Joint Powers Act, there is hereby created a public entity, separate and apart from the Parties, to be known as the Roseville Natural Gas Financing Authority. The Authority's debts, liabilities and obligations do not and will not constitute debts, liabilities or obligations of either Party; provided that nothing in this Agreement shall limit a Party's authority or ability to enter into separate agreements with the Authority pursuant to which the Party agrees to make payments in connection with debts, liabilities or obligations of the Authority, including Bonds, Gas Agreements, Public Finance Contracts, Risk Management Contracts, contracts and agreements relating to Credit Enhancement and Liquidity Support.

B. BOARD OF DIRECTORS.

(1) The governing body of the Authority shall be a Board of Directors which shall consist of the members of the City Council of the City. The Board shall be the administering agency of this Agreement and, as such, shall be vested with all the powers of the Authority and shall execute and administer this Agreement in accordance with the purposes set forth herein.

(2) Directors shall not receive any compensation for serving as Directors but shall be entitled to reimbursement for any expenses actually incurred in connection with serving as a Director if the Board shall determine that such expenses shall be reimbursed and there are unencumbered funds available for such purpose.

C. OFFICERS; DUTIES; OFFICIAL BONDS.

(1) The Mayor of the City shall be the Chair of the Board, the Mayor Pro Temporare shall be the Vice Chair of the Board, the City Clerk of the City shall be the Secretary of the Authority and the City Manager shall be the Executive Director of the Authority. Each of the Chair, the Vice Chair, the Executive Director and any other officer of the Authority authorized by Board resolution is authorized to execute any and all Bonds, contracts, agreements, instruments and other documents on behalf of, and in the name of, the Authority. The Secretary shall attest to the signature of an officer on any such Bond, contract, agreement, instrument and other document when required to do so by Board resolution and shall perform the normal duties of the secretary of an organization such as the Authority, including maintaining custody of the records of the Board and the Authority. The Executive Director shall be the chief executive officer of the Authority and as such implement the policy decisions and the directors of the Board. The Chair, the Vice Chair, the Executive Director and the Secretary shall have such other powers, duties and responsibilities as shall be determined by the Board.

(2) The Treasurer of the City shall serve as both treasurer and auditor of the Authority. The Treasurer shall have the powers, duties and responsibilities specified in the Joint Powers Act for the treasurer and auditor of a separate entity established thereunder and shall comply with all of the duties and responsibilities of the offices of treasurer and auditor of a separate entity formed under the Joint Powers Act set forth in the Joint Powers Act.

Subject to the provisions of each Indenture providing for a trustee or other fiscal agent, the Treasurer is designated as the depositary of the Authority to have custody of all money of the Authority from whatever source derived. Subject to the provisions of each Indenture and any contracts authorized by the Board for the lease, operation or custody of Authority property, the Treasurer is designated as the public officer or person who has charge of, handles, and has access to all property of the Authority.

The Treasurer shall file an official bond with the Secretary of the Authority in the amount of $1,000 or such greater amount as shall be specified by the Board. If and to the extent permitted by law, the Treasurer may satisfy this requirement by filing an official bond in at least said amount obtained in connection with another public office so long as such official bond includes coverage of the Treasurer as such officer of the Authority.

(3) The Board shall have the power to appoint from time to time such other officers, agents, employees, counsel and accountants, and to specify their respective powers, duties and responsibilities, as it may deem necessary or convenient.

(4) The Board shall have the power, to the extent permitted by the Joint Powers Act or any other applicable law, to delegate any of its functions to one or more Directors, officers, employees or agents of the Authority, and to cause any of said Directors, officers, employees or agents to take any actions for and in the name and on behalf of the Board or the Authority.

D. MEETINGS OF THE BOARD.

(1) Ralph M. Brown Act.

All meetings of the Board, including regular, adjourned regular, special, and adjourned special meetings shall be scheduled, called, noticed, held and conducted in accordance with the provisions of the Brown Act.

(2) Regular Meetings.

The Board shall hold at least one regular meeting during each Fiscal Year. The date, hour and place of the holding of the regular meetings shall, if requested by a Party, be filed with such Party.

(3) Special Meetings.

Special meetings of the Board for any purpose or purposes may be called at any time by the Chair or a majority of Directors then in office. Special meetings of the Board may be held at any time specified in the notice of the meeting which is consistent with the notice and other provisions of the Brown Act.

(4) Minutes.

The Secretary of the Authority shall cause to be kept minutes of the regular, adjourned regular, special, and adjourned special meetings of the Board and shall, as soon as possible after each meeting, cause a copy of the minutes to be delivered to each Director.

(5) Quorum.

A majority of the Directors then in office, but no less than three, shall constitute a quorum for the transaction of business. No action may be taken by the Board except upon the affirmative vote of a majority of the Directors then in office, except that less than a quorum may adjourn a meeting to another time and place.

E. RULES AND REGULATIONS.

The Authority may adopt, from time to time, by resolution of the Board, such rules and regulations for the conduct of its meetings and affairs as the Board determines are necessary or convenient.

SECTION 5. POWERS.

The Authority shall have any and all powers necessary or convenient in accomplishing its purposes (as set forth in Section 2) which are authorized by law to each of the Parties hereto and separately to the public entity herein created, including all powers which are incidental to express powers. All such powers, whether common to the Parties or separately conferred by law upon the Authority, are specified as powers of the Authority.

Without limiting the generality of the preceding paragraph, the Authority is hereby authorized, in its own name, to do any and all of the following: to sue and be sued; to make and enter into contracts, including but not limited to (i) Gas Agreements, (ii) Risk Management Contracts, (iii) Public Finance Contracts, and (iv) contracts and agreements relating to Credit Enhancement and/or Liquidity Support for Bonds, Gas Agreements, Public Finance Contracts and Risk Management Contracts; to employ agents, consultants, attorneys and employees; to acquire, construct, maintain and operate (or to provide for maintenance and operation of) any buildings, works or improvements; to acquire, hold or dispose of property, whether real or personal, tangible or intangible, wherever located; to issue Bonds and to pledge any property (whether real or personal, tangible or intangible and/or revenues as security for such Bonds; and to receive gifts, contributions and donations of property, funds, services and other forms of assistance from persons, firms, corporations and any governmental entity.

SECTION 6. MANNER OF EXERCISING POWERS.

To the extent required by Section 6509 of the Joint Powers Act, the manner in which the Authority shall exercise its powers and perform its duties is and shall be subject to the restrictions upon the manner in which the City could exercise such powers and perform such duties. The manner in which the Authority shall exercise its powers and perform its duties shall not be subject to any restrictions applicable to the manner in which any other public agency could exercise such powers or perform such duties, whether such agency is a Party to this Agreement or not.

SECTION 7. DISPOSITION OF ASSETS.

At the end of the term hereof or upon the earlier termination of this Agreement as set forth in Section 3, after payment of all expenses and liabilities of the Authority, all property of the Authority both real and personal shall automatically vest in the Parties in equal shares and

shall thereafter remain the sole property of the respective Parties; provided, however, that any surplus money on hand shall be returned in proportion to the contributions made by the Parties and if no contributions have been made in proportion to the payments made by each of the Parties to or for the account of the Authority in connection with its projects and programs, including payments with respect to Bonds, Gas Agreements, Public Finance Contracts, Risk Management Contracts, agreements relating to Credit Enhancement and/or Liquidity Support for Bonds, Gas Agreements, Public Finance Contracts and Risk Management Contracts; and any other agreements or obligations of the Authority.

SECTION 8. BONDS.

A. ISSUANCE OF BONDS.

The Authority may, when authorized by any Bond Act and by resolution of the Board, issue Bonds for the purpose of raising funds for the exercise of its powers or otherwise to carry out its purposes under this Agreement. Said Bonds may have such terms and conditions as shall be authorized by the Board.

B. BONDS SPECIAL OBLIGATIONS.

The Bonds, including the principal, redemption price and purchase price (to the extent payable by the Authority pursuant to the applicable Indenture(s) upon tender for purchase in accordance with the provisions of such Indenture(s)) and the interest thereon, shall be special obligations of the Authority payable solely from, and secured solely by, the revenues, funds and other assets pledged therefor under the applicable Indenture(s) and shall not constitute a charge against the general credit of the Authority. The Bonds shall not be secured by a legal or equitable pledge of, or lien or charge upon or security interest in, any property of the Authority or any of its income or receipts except the property, income and receipts pledged therefor under the applicable Indenture(s). Neither the faith and credit nor the taxing power of the State of California, the City, the Redevelopment Agency or any other public agency shall be pledged to the payment of the principal, redemption price or purchase price of, or the interest on, the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the State or any political subdivision thereof, including the City and the Redevelopment Agency, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal, redemption price or purchase price of, or interest on, the Bonds shall not constitute a debt, liability or obligation of the State or any public agency, including the City and the Redevelopment Agency (other than the special obligation of the Authority as provided in the applicable Indenture(s)).

No covenant or agreement contained in any Bond or Indenture shall be deemed to be a covenant or agreement of any Director, officer, agent or employee of the Authority in his individual capacity and no Director or officer of the Authority executing a Bond shall be liable personally on such Bond or be subject to any personal liability or accountability by reason of the issuance of such Bond.

SECTION 9. PUBLIC FINANCE CONTRACTS AND RISK MANAGEMENT CONTRACTS.

In the exercise of a common power of the Parties or a power conferred upon the Authority by any law (whether currently in force or hereafter enacted) as an entity separate from the Parties, and when authorized by resolution of the Board, the Authority may enter into Public Finance Contracts and/or Risk Management Contracts with respect to interest rates, natural gas prices or other matters relating to any of the Authority's projects, programs, assets and/or liabilities and Credit Enhancement agreements in connection with any or all of such agreements. Such Public Finance Contracts, Risk Management Contracts and Credit Enhancement agreements may have such terms and conditions as shall be authorized by the Board.

SECTION 10. ACCOUNTS AND REPORTS.

A. BOOKS AND RECORDS.

All funds of the Authority shall be strictly accounted for in books of account maintained by, or on behalf of, the Authority which shall report all receipts and disbursements of Authority funds. The Authority shall establish and maintain such funds and accounts as may be required by good accounting practice and by each Indenture for outstanding Bonds (to the extent such duties are not assigned to trustees under the Indentures). The books and records of the Authority shall be open to inspection at all reasonable times by each Party.

The Authority shall require that each Indenture provide that the trustee appointed thereunder shall establish suitable funds and furnish suitable financial reports in connection with the funds held by such trustee.

B. AUDIT.

The Treasurer shall cause an independent audit to be made of the books of account and financial statements of the Authority, and shall cause such financial statements and audit to be filed and reported, in compliance with the requirements of the Joint Powers Act. Any costs of the audit, including contracts with, or employment of, certified public accountants or public accountants in making an audit pursuant to this Section shall be borne by the Authority and, to the extent not paid from funds provided pursuant to one or more of the Authority's projects or programs, shall be a charge against any unencumbered funds of the Authority available for that purpose.

SECTION 11. FUNDS.

Subject to the applicable provisions of each Indenture, which may provide for a trustee to receive, have custody of and disburse funds that constitute Authority funds, the Treasurer of the Authority shall receive, have the custody of and disburse Authority funds pursuant to accounting procedures approved by the Board, and shall make the disbursements necessary or convenient in carrying out any of the provisions or purposes of this Agreement.

SECTION 12. NOTICES.

Notices and other communications hereunder to a Party shall be sufficient if delivered: with respect to the City, to the City Clerk of the City; and if to the Redevelopment Agency, to the secretary of the Redevelopment Agency.

SECTION 13. INDEMNIFICATION.

To the full extent permitted by law, the Board may authorize indemnification by the Authority of any person who is or was a Director, or an officer, employee or other agent of the Authority, and who was or is a party or is threatened to be made a party to a proceeding by reason of the fact that such person is or was such a Director, officer, employee or other agent of the Authority, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Authority and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful and, in the case of any action by or in the right of the Authority, acted with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

SECTION 14. CONTRIBUTIONS AND ADVANCES.

Without limiting the power of the Authority to accept contributions from persons other than the Parties, contributions or advances of public funds and of the use of personnel, equipment or property may be made to the Authority by the Parties hereto for any of the purposes of this Agreement. Any advance of funds by a Party may be made subject to repayment, and in such case shall be repaid, in the manner agreed upon by the Authority and the Party making such advance.

SECTION 15. IMMUNITIES.

All of the privileges and immunities from liabilities, exemptions from laws, ordinances and rules, all pension, relief, disability, workers' compensation, and other benefits which apply to the activity of officers, agents, employees or other representatives of a Party when performing their respective functions within the territorial limits of their public agency, shall apply to them to the same degree and extent while engaged as a Director, officer, agent, employee or other representative of the Authority or while engaged in the performance of any of their functions or duties under the provisions of this Agreement whether within or outside of the boundaries of the applicable Party.

SECTION 16. CONSULTANTS AND ADVISORS.

The Authority may employ the services of independent counsel, including bond and other special counsel, financing, engineering, utility, natural gas and other consultants and advisors, and accountants and auditors in connection with the programs and projects undertaken pursuant to this Agreement, including the issuance of Bonds and the entry into Gas Agreements, Public Finance Contracts, Risk Management Contracts, and Credit Enhancement agreements in connection therewith. The fees and expenses of such counsel, consultants, advisors, accountants and auditors, and the expenses of the Authority in connection with such programs and projects,

shall, to the extent not paid from funds received pursuant to one or more agreements relating to such projects and programs, be paid from the proceeds of Bonds or any other unencumbered funds of the Authority available for such purpose.

SECTION 17. AMENDMENTS.

This Agreement shall not be amended, modified, or altered except by a written instrument duly executed by each of the Parties.

SECTION 18. EFFECTIVENESS.

This Agreement shall become effective and be in full force and effect and a legal, valid and binding obligation of each of the City and the Redevelopment Agency at 9:00 a.m., California time, on the first date as of which each Party shall have received from the other an executed counterpart of this Agreement, together with a certified copy of a resolution of the governing body of such Party approving this Agreement and the execution and delivery hereof.

SECTION 19. PARTIAL INVALIDITY.

If any one or more of the terms, provisions, promises, covenants or conditions of this Agreement shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of this Agreement shall not be affected thereby, and shall be valid and enforceable to the fullest extent permitted by law.

SECTION 20. SUCCESSORS.

This Agreement shall be binding upon and shall inure to the benefit of the successors of the Parties hereto. Except to the extent expressly provided herein, no Party may assign any right or obligation hereunder without the consent of the other Party.

SECTION 21. MISCELLANEOUS.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The section headings herein are for convenience only and are not to be construed as modifying or governing the language in the section referred to.

Each of the Parties represents and warrants that it possesses the common powers referred to in the recitals hereof. Nothing in this Agreement shall be construed as a limitation on the rights of the Parties to exercise the common powers referred to in the recitals hereof outside of this Agreement.

This Agreement is made in the State, under the Constitution and laws of the State and is to be construed as a contract made and to be performed in the State.

This Agreement is the complete and exclusive statement of the agreement between the Parties with respect to the subject matter hereof, and this Agreement supersedes and

merges all prior proposals, understandings, and other agreements, whether oral, written, or implied in conduct, between the Parties relating to the subject matter of this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested to by their proper officers thereunto duly authorized, as of the day and year first above written.

Dated: December 7, 2006

CITY OF ROSEVILLE

By: _____
City Manager

Approved as to form:

_____
City Attorney

Attest:

By: _____
City Clerk

The foregoing instrument is a correct copy of the original on file in this office.

ATTEST: _____
City Clerk of the City of Roseville, California

_____
DEPUTY CLERK

Dated: December 7, 2006

REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE

By: _____
Executive Director

Approved as to form:

_____
Agency Counsel

Attest:

By: _____
Agency Secretary

State of California
Secretary of State

FILE NO. 2012

FILED
In the office of the Secretary of State of the State of California

JAN 19 2007

(Office Use Only)

NOTICE OF A JOINT POWERS AGREEMENT
(Government Code Section 6503.5 or 6503.7)

Instructions:

1. Complete and mail to: Secretary of State, P.O. Box 942877, Sacramento, CA 94277-0001 (916) 653-3984
2. Include filing fee of $1.00.
3. Do not include attachments, unless otherwise specified.

The name of the agency or entity created under the agreement and responsible for the administration of the agreement is: Roseville Natural Gas Financing Authority

Mailing Address: 311 Vernon Street, Roseville, California 95678-2649

Provide a short title of the agreement if applicable: Joint Exercise of Powers Agreement, dated as of November 1, 2006, by and between City of Roseville and Redevelopment Agency of the City of Roseville

The public agencies party to the agreement are:

(1) City of Roseville

(2) Redevelopment Agency of the City of Roseville

(3)

If more space is needed, continue on a separate sheet and attach it to this form.

The effective date of the agreement is: December 7, 2006

Provide a condensed statement of the agreement's purpose or the powers to be exercised: To undertake projects and programs that promote economic development within the City of Roseville (the "City"), including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base. Such projects and programs include assisting the City in procuring natural gas to be used as fuel for electric generating units which are part of the Electric System. Such assistance may include, among other things, the Authority's issuance of bonds pursuant to any applicable Bond Law, providing Credit Enhancement and Liquidity Support for Bonds, the entry into Gas Agreements, Public Finance Contracts and/or Risk Management Contracts and providing Credit Enhancement for all or any portion of such Gas Agreements, Public Finance Contracts and Risk Management Contracts. Capitalized undefined terms shall have the meanings ascribed thereto in the JPA.

January 11, 2007
Date

Sonia Orozco
Signature

Sonia Orozco, Secretary
Typed Name and Title

SEC/STATE NP/SF 404A (REV. 03/2005)

State of California
Secretary of State

FILED
In the office of the Secretary of State
of the State of California

JAN 19 2007

(Office Use Only)

STATEMENT OF FACTS
ROSTER OF PUBLIC AGENCIES FILING
(Government Code Section 53051)

Instructions:

1. Complete and mail to: Secretary of State, P.O. Box 942877, Sacramento, CA 94277-0001 (916) 653-3984
2. A street address must be given as the official mailing address or as the address of the presiding officer.
3. Complete addresses as required.
4. If you need additional space, please include information on an 8½ X 11 page.

New Filing ☑ Update ☐

Legal name of Public Agency: Roseville Natural Gas Financing Authority

Nature of Update: New Filing

County: Placer

Official Mailing Address: 311 Vernon Street, Roseville, California 95678-2649

Name and Address of each member of the governing board:

Chairman, President or other Presiding Officer (Indicate Title): Chair

Name: Rocky Rockholm Address: 311 Vernon Street, Roseville, California 95678-2649

Secretary or Clerk (Indicate Title): Secretary

Name: Sonia Orozco Address: 311 Vernon Street, Roseville, California 95678-2649

Members:

Name: Gina Garbolino (Vice Chair) Address: 311 Vernon Street, Roseville, California 95678-2649

Name: John Allard Address: 311 Vernon Street, Roseville, California 95678-2649

Name: Jim Gray Address: 311 Vernon Street, Roseville, California 95678-2649

Name: Richard Roccucci Address: 311 Vernon Street, Roseville, California 95678-2649

Name: Address:

Date: January 11, 2007

Sonia Orozco
Signature

Sonia Orozco, Secretary
Typed Name and Title

SEC/STATE NP/SF 405 (REV. 03/2005)

COPY

State of California
Secretary of State

FILED
2007 JAN 19 PM 3:40
PLACER CO. CLERK
ELECTION DIVISION
(Office Use Only)

STATEMENT OF FACTS
ROSTER OF PUBLIC AGENCIES FILING
(Government Code Section 53051)

Instructions:

1. Complete and mail to: Secretary of State, P.O. Box 942877, Sacramento, CA 94277-0001 (916) 653-3984
2. A street address must be given as the official mailing address or as the address of the presiding officer.
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New Filing [✓] Update [ ]

Legal name of Public Agency: Roseville Natural Gas Financing Authority

Nature of Update: New Filing

County: Placer

Official Mailing Address: 311 Vernon Street, Roseville, California 95678-2649

Name and Address of each member of the governing board:

Chairman, President or other Presiding Officer (Indicate Title): Chair

Name: Rocky Rockholm Address: 311 Vernon Street, Roseville, California 95678-2649

Secretary or Clerk (Indicate Title): Secretary

Name: Sonia Orozco Address: 311 Vernon Street, Roseville, California 95678-2649

Members:

Name: Gina Garbolino (Vice Chair) Address: 311 Vernon Street, Roseville, California 95678-2649
Name: John Allard Address: 311 Vernon Street, Roseville, California 95678-2649
Name: Jim Gray Address: 311 Vernon Street, Roseville, California 95678-2649
Name: Richard Roccucci Address: 311 Vernon Street, Roseville, California 95678-2649
Name: Address:

Date: January 11, 2007

Sonia Orozco
Signature

Sonia Orozco, Secretary
Typed Name and Title

SEC/STATE NP/SF 405 (REV. 03/2005)

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

GENERAL CERTIFICATE AS TO BOARD OF DIRECTORS
AND OFFICERS OF THE AUTHORITY AND SIGNATURES

We, W. Craig Robinson, Executive Director of the Roseville Natural Gas Financing Authority (the "Authority"), and Sonia Orozco, Secretary of the Authority, HEREBY CERTIFY as follows:

1. that the members of the Board of Directors of the Authority were on January 10, 2007, and continue as such members to the date hereof as follows:

Name	Office
James Gray	Chair
Gina Garbolino	Vice Chair
Richard Roccucci	Board Member
Carol Garcia	Board Member
John Allard	Board Member
W. Craig Robinson	Executive Director
Sonia Orozco	Secretary
Russ Branson	Treasurer

2. that the persons holding the following offices and positions and duly appointed thereto and acting therein were on January 10, 2007, and continue to hold such offices and positions to the date hereof, as follows:

Name	Office
W. Craig Robinson	Executive Director
Sonia Orozco	Secretary

3. that the signatures set forth opposite the respective names of the following designated officers of the Authority are manual specimens of their signature:

Name	Office	Signature
W. Craig Robinson	Executive Director	
Sonia Orozco	Secretary	

4. that the said W. Craig Robinson and the said Sonia Orozco have caused their facsimile signatures to be printed on the Gas Revenue Bonds, Series 2007 (the "Bonds") of the Authority, and said signatures on the Bonds constitute their true and lawful signatures.

IN WITNESS WHEREOF, we have hereunto set our hands this 6th day of February, 2007.

W. Craig Robinson
Executive Director

Sonia Orozco
Secretary

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

WRITTEN REQUEST OF THE AUTHORITY

February 6, 2007

The Bank of New York Trust Company, N.A., as Trustee
550 Kearny Street, Suite 600
San Francisco, CA 94108

Ladies and Gentlemen:

There has been heretofore delivered to you: duly executed, $209,350,000 aggregate principal amount of Gas Revenue Bonds, Series 2007 (the 'Bonds') of the Roseville Natural Gas Financing Authority (the 'Authority'), issued under and pursuant to the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the 'Trustee').

In addition, the following are being delivered to you simultaneously with the delivery of this request so as to meet the conditions precedent to the authentication and delivery of the Bonds set forth in Section 2.03 of the Trust Indenture:

1. a copy, certified by an Authorized Officer, of a resolution and evidence of other official actions taken by the Authority, which authorize the execution and delivery of the Bonds;

2. an Opinion of Counsel, as required by Section 2.03(ii) of the Trust Indenture;

3. an Opinion of Bond Counsel, as required by Section 2.03(iii) of the Trust Indenture;

4. the Supply Agreement, as required by Section 2.03(iv) of the Trust Indenture;

5. the executed Seller Guarantee;

6. the Funding Agreement, as required by Section 2.03(vi) of the Trust Indenture;

7. the executed Funding Guarantee;

8. an opinion of counsel to the Municipality, as required by Section 2.03(viii) of the Trust Indenture;

9. a letter from Moody's rating the Bonds at least Aa3, a letter from S&P rating the Bonds at least AA-, and a letter from Fitch rating the Bonds at least AA-; and

10. a Written Request as to the authentication and delivery of the Bonds (this letter constitutes such Written Request).

Other than the receipt of the proceeds of the sale of the Bonds, such documents constitute all of the conditions precedent to the authentication and delivery of the Bonds by you as Trustee under the Trust Indenture. Upon confirmation of receipt of the proceeds of the Bonds as such proceeds are set forth in the Trust Indenture, you are hereby requested and directed to authenticate the Bonds and to deliver the Bonds to or upon the order of Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchaser under that certain Bond Purchase Contract relating to the Bonds, dated January 24, 2007, between the Municipality and said purchaser. You are hereby further authorized and directed to apply the proceeds of the Bonds as set forth in the Trust Indenture.

Capitalized terms used herein not otherwise defined shall have the meanings given such terms pursuant to the Trust Indenture.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____
W. Craig Robinson
Executive Director

Accepted: The Bank of New York Trust Company, N.A., as Trustee

By: _____
Authorized Officer

Capitalized terms used herein not otherwise defined shall have the meanings given such terms pursuant to the Trust Indenture.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____
W. Craig Robinson
Executive Director

Accepted: The Bank of New York Trust Company, N.A., as Trustee

By: _____
Authorized Officer

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE AS TO SPECIMEN BONDS

I, Sonia Orozco, Secretary of the Roseville Natural Gas Financing Authority (the "Authority"), HEREBY CERTIFY as follows:

1. that attached hereto is a specimen of the Roseville Natural Gas Financing Authority's Gas Revenue Bonds, Series 2007, in fully registered form, which specimen is identical in all respects, except as to numbers and signatures, with the Roseville Natural Gas Financing Authority's Gas Revenue Bonds, Series 2007, in fully registered form, this day delivered to, or upon the order of Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchaser of the Bonds pursuant to the Bond Purchase Contract, dated January 24, 2007, between the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated; and

2. that said specimen of the Gas Revenue Bonds, Series 2007, in fully registered form, is substantially in the form prescribed by the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee.

IN WITNESS WHEREOF, I have hereunto set my hand this 6th day of February, 2007.

Sonia Orozco
Secretary

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED
NO. 1

REGISTERED
$6,645,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2009	February 6, 2007	777863AA9	4.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: SIX MILLION SIX HUNDRED FORTY-FIVE THOUSAND DOLLARS

SPECIMEN

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "Trustee"), as the same may be amended and supplemented from time to time (the "Indenture").

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED
NO. 2

REGISTERED
$6,650,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2010	February 6, 2007	777863AB7	4.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: SIX MILLION SIX HUNDRED FIFTY THOUSAND DOLLARS

ORIGINAL

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "Trustee"), as the same may be amended and supplemented from time to time (the "Indenture").

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED
NO. 3

REGISTERED
$6,915,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2011	February 6, 2007	777863AC5	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: SIX MILLION NINE HUNDRED FIFTEEN THOUSAND DOLLARS

SPECIMEN

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

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REGISTERED
NO. 4

REGISTERED
$7,265,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2012	February 6, 2007	777863AD3	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: SEVEN MILLION TWO HUNDRED SIXTY-FIVE THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 5

REGISTERED
$7,675,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2013	February 6, 2007	777863AE1	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: SEVEN MILLION SIX HUNDRED SEVENTY-FIVE THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 6

REGISTERED
$8,030,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2014	February 6, 2007	777863AF8	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: EIGHT MILLION THIRTY THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 7

REGISTERED
$8,435,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2015	February 6, 2007	777863AG6	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: EIGHT MILLION FOUR HUNDRED THIRTY-FIVE THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 8

REGISTERED
$8,860,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2016	February 6, 2007	777863AH4	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: EIGHT MILLION EIGHT HUNDRED SIXTY THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 9

REGISTERED
$9,345,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2017	February 6, 2007	777863AJ0	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: NINE MILLION THREE HUNDRED FORTY-FIVE THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 10

REGISTERED
$9,780,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2018	February 6, 2007	777863AK7	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: NINE MILLION SEVEN HUNDRED EIGHTY THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 11

REGISTERED
$10,275,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2019	February 6, 2007	777863AL5	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: TEN MILLION TWO HUNDRED SEVENTY-FIVE THOUSAND DOLLARS

SPECIMEN

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

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REGISTERED
NO. 12

REGISTERED
$10,800,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2020	February 6, 2007	777863AM3	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: TEN MILLION EIGHT HUNDRED THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 13

REGISTERED
$11,385,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2021	February 6, 2007	777863AN1	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: ELEVEN MILLION THREE HUNDRED EIGHTY-FIVE THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 14

REGISTERED
$11,920,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2022	February 6, 2007	777863AP6	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: ELEVEN MILLION NINE HUNDRED TWENTY THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 15

REGISTERED
$12,520,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2023	February 6, 2007	777863AQ4	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: TWELVE MILLION FIVE HUNDRED TWENTY THOUSAND DOLLARS

SPECIMEN

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REGISTERED
NO. 16

REGISTERED
$13,155,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2024	February 6, 2007	777863AR2	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: THIRTEEN MILLION ONE HUNDRED FIFTY-FIVE THOUSAND DOLLARS

SPECIMEN

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "Trustee"), as the same may be amended and supplemented from time to time (the "Indenture").

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED
NO. 17

REGISTERED
$13,865,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2025	February 6, 2007	777863AS0	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: THIRTEEN MILLION EIGHT HUNDRED SIXTY-FIVE THOUSAND DOLLARS

SPECIMEN

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "Trustee"), as the same may be amended and supplemented from time to time (the "Indenture").

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED
NO. 18

REGISTERED
$14,530,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2026	February 6, 2007	777863AT8	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: FOURTEEN MILLION FIVE HUNDRED THIRTY THOUSAND DOLLARS

SPECIMEN

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "Trustee"), as the same may be amended and supplemented from time to time (the "Indenture").

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED
NO. 19

REGISTERED
$15,265,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2027	February 6, 2007	777863AU5	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: FIFTEEN MILLION TWO HUNDRED SIXTY-FIVE THOUSAND DOLLARS

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

SPECIMEN

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "Trustee"), as the same may be amended and supplemented from time to time (the "Indenture").

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED
NO. 20

REGISTERED
$16,035,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BOND, SERIES 2007

MATURITY DATE	DATED DATE	CUSIP	INTEREST RATE
February 15, 2028	February 6, 2007	777863AV3	5.000%

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: SIXTEEN MILLION THIRTY-FIVE THOUSAND DOLLARS

SPECIMEN

The Roseville Natural Gas Financing Authority (the "Authority"), a joint exercise of powers agency duly established and existing under Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), acknowledges itself indebted and for value received hereby promises to pay, in the manner and solely from the source hereinafter provided, to the registered owner identified above, or registered assigns, on the Maturity Date stated above, unless this Bond shall have been called for redemption (in whole or in part) and payment of the Redemption Price shall have been duly made or provided for, upon presentation and surrender hereof, the principal amount identified above, and to pay, in the manner and from the source hereinafter provided, to the registered owner hereof interest on the balance of said principal amount from time to time remaining unpaid at the rate set forth above, until payment in full of such principal amount.

The Authority is obligated to pay the principal of, Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N. A., as trustee (said trustee and any successor thereto under the Indenture being herein referred to as the "Trustee"), as the same may be amended and supplemented from time to time (the "Indenture").

This Bond is one of an issue of Bonds of the Authority designated as "Gas Revenue Bonds, Series 2007" (herein called the "Bonds"), limited to the aggregate principal amount of $209,350,000, dated as of the dated date identified above, and duly issued under and by virtue of Article 4 of the Act and under and pursuant to the Indenture. The Bonds have been issued for the purpose of providing funds to acquire a supply of natural Gas for the Municipality and to pay related expenses. Except as otherwise provided herein and unless the context clearly indicates otherwise, words and phrases used herein shall have the same meanings as such words and phrases in the Indenture.

All Bonds issued under the Indenture are and will be equally and ratably secured by the pledge and covenants made therein, except as otherwise expressly provided or permitted in or pursuant to the Indenture. The Indenture permits the Authority to issue obligations to refund Bonds, which obligations may be payable from, and secured by a pledge of, the Revenues on a parity with the Bonds.

This Bond is a special obligation of the Authority and the principal and Redemption Price of, and interest on, this Bond are payable solely from the Revenues and the other funds pledged therefor under the Indenture and shall not constitute a charge against the general credit of the Authority. This Bond is not secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Revenues and the other funds pledged pursuant to the Indenture which are subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the State of California, the Authority or any other public agency, including the Municipality, is pledged to the payment of the principal or Redemption Price of or the interest on this Bond. The issuance of this Bond shall not directly, indirectly or contingently obligate the Authority or the Municipality to levy or pledge any form of taxation or to make any appropriation for the payment of this Bond. The payment of the principal or Redemption Price of or interest on this Bond does not constitute a debt, liability or obligation of the State of California or any public agency, including the Municipality, other than the special obligation of the Authority as provided in the Indenture.

Copies of the Indenture are on file at the principal corporate trust office of the Trustee and reference to the Indenture and the Act is made for a description of the pledge and covenants securing the Bonds, the nature, manner and extent of enforcement of such pledge and covenants, the terms and conditions upon which the Bonds were issued, and a statement of the rights, duties, immunities and obligations of the Authority and of the Trustee. Such pledge and other obligations of the Authority under the Indenture may be discharged at or prior to the maturity or redemption of the Bonds upon the making of provision for the payment thereof on the terms and conditions set forth in the Indenture.

The Authority has established a book-entry system of registration for the Bonds. Except as specifically provided otherwise in the Indenture, a Securities Depository (or its nominee) will be the registered owner of this Bond. By acceptance of a confirmation of purchase, delivery or transfer, the Beneficial Owner of this Bond shall be deemed to have agreed to this arrangement. The Securities Depository (or its nominee), as registered owner of this Bond, shall be treated as the Owner of it for all purposes.

The Authority will pay the principal or Redemption Price of, and interest on this Bond solely from the Revenues and other funds of the Authority pledged therefor in accordance with the provisions of the Indenture. Interest will accrue on the unpaid portion of the principal of this Bond from the Interest Payment Date immediately preceding the date of authentication hereof or, if no interest has been paid or duly provided for, from the Dated Date of this Bond, until the entire principal amount of this Bond is paid or duly provided for, and such interest shall be paid in the manner and on the Interest Payment Dates specified in the Indenture.

The Bonds are subject to acceleration or redemption prior to maturity upon the circumstances, at the times, in the amounts, upon payment of the amounts, with the notice, upon the other terms and provisions and with the effect set forth in the Indenture.

This Bond may be transferred or exchanged as provided in the Indenture. The Authority and the Trustee may treat and consider the Person in whose name this Bond is registered on the Bond Register as the Owner and the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or Redemption Price hereof and interest due hereon and for all other purposes whatsoever.

To the extent and in the respects permitted by the Indenture, the Indenture may be modified or amended by action of the Authority taken in the manner and subject to the conditions and exceptions prescribed in the Indenture. Certain such modifications and amendments may be made without the consent of the Owners of the Bonds to the extent provided in the Indenture.

SPECIMEN

The Owner or Beneficial Owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the pledge or covenants made therein or to take any action with respect to an Event of Default under the Indenture or to institute, appear in, or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

Neither the members of the Authority, the members of the Authority's Board of Directors, nor any person executing this Bond, nor any officer or employee of the Authority shall be individually liable for the principal or Redemption Price of or interest on this Bond or be subject to any personal liability or accountability by reason of the issuance of this Bond or in respect of any undertakings by the Authority under the Indenture.

It is hereby certified and recited that all conditions, acts and things required by the Constitution or statutes of the State of California or by the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of this Bond exist, have happened and have been performed in due time, form and manner, and that the issue of Bonds, together with all other indebtedness of the Authority, is within every debt and other limit prescribed by said Constitution and statutes.

This Bond shall not be valid until the Certificate of Authentication hereon shall have been signed by the Trustee.

IN WITNESS WHEREOF, THE ROSEVILLE NATURAL GAS FINANCING AUTHORITY has caused this Bond to be signed in its name and on its behalf by the manual or facsimile signature of its Executive Director, and attested by the manual or facsimile signature of its Secretary, all as of the issue date specified above.

ROSEVILLE NATURAL GAS
FINANCING AUTHORITY

By: _____
Executive Director

SPECIMEN

ATTEST

_____
Secretary

SPECIMEN

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in the within mentioned Indenture and is one of the Gas Revenue Bonds, Series 2007, of Roseville Natural Gas Financing Authority.

Date of registration and authentication: February 6, 2007

THE BANK OF NEW YORK TRUST COMPANY, N. A., AS TRUSTEE

By: _____
Authorized Officer

SPECIMEN

Customary abbreviations may be used in the name of a Owner or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/T/M/A (= Uniform Transfers to Minors Act).

The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	—	as tenants in common	UNIF TRAN MIN ACT
TEN ENT	—	as tenants by the entirety	_____ Custodian _____
JT TEN	—	as joint tenants with right	(Cust) (Minor)

of survivorship and not as under Uniform Transfers to Minors Act of

tenants in common _____
(State)

Additional abbreviations may also be used though not in list above.

ASSIGNMENT

For Value Received, the undersigned sells, assigns and transfers unto _____

PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

(Name and Address of Assignee)

_____

the within Bond of ROSEVILLE NATURAL GAS FINANCING AUTHORITY, and hereby irrevocably constitutes and appoints

_____

_____

attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Date: _____

SIGNATURE GUARANTEED:

_____

Notice: Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Trustee, which requirements include membership or participation in STAMP or such other "signature guarantee program" as may be determined by the Trustee in addition to, or in substitution for, STAMP, all in accordance with the Securities and Exchange Act of 1934, as amended.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

SPECIMEN

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF THE AUTHORITY

I, W. Craig Robinson, Executive Director of the Roseville Natural Gas Financing Authority (the "Authority"), HEREBY CERTIFY as follows:

1. that the conditions set forth in Sections 22.2.1 and 22.2.2 of the Agreement for Purchase and Sale of Natural Gas, dated January 24, 2007 (the "Prepaid Gas Agreement"), between Merrill Lynch Commodities, Inc. (the "Gas Supplier") and the Authority have been fulfilled;

2. that that the representations of Authority contained in Section 4 of the Bond Purchase Contract, dated January 24, 2007, by and between Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser") and the Authority with respect to the Authority's Gas Revenue Bonds, Series 2007, (the "Bonds") are true and correct as of the date hereof as if made on and as of the date hereof, and the Authority has complied with and performed all of its covenants and agreements in said Bond Purchase Contract to be complied with and performed at or prior to the date hereof;

3. that the representations and warranties of the Authority in the Transaction Documents are true and correct as of the date hereof as if made on and as of the date hereof, and the Authority has complied with and performed all of its covenants and agreements in the Transaction Documents to be complied with and performed at or prior to the date hereof; and

4. that all conditions to the issuance of the Bonds have been satisfied and the Authority has duly executed and delivered the Bonds to the Trustee.

All capitalized terms not otherwise defined herein are ascribed the meanings thereto defined in the Bond Purchase Contract.

IN WITNESS WHEREOF, I have hereunto set my hand this 6th day of February, 2007.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: W. Craig Robinson

W. Craig Robinson
Executive Director

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS, SERIES 2007

CERTIFICATE REGARDING PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby states and certifies:

1. That he is the duly appointed, qualified and acting Executive Director of the Roseville Natural Gas Financing Authority (the "Authority") and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

2. That there has been delivered to Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the purchaser (the "Purchaser") of the captioned Bonds, a Preliminary Official Statement, relative to the captioned Bonds, dated January 18, 2007 (including the cover page and all appendices thereto, the "Preliminary Official Statement"), which the Authority deems final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12; and

3. The Authority hereby approves the use and distribution by the Purchaser of the Preliminary Official Statement.

Dated: January 18, 2007

ROSEVILLE NATURAL GAS
FINANCING AUTHORITY

By W. Craig Robinson
Executive Director

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

REQUISITION NO. 1 (Costs of Issuance Fund)

February 6, 2007

The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108
Attention: Corporate Trust

Re: Disbursement from the Costs of Issuance Fund

The undersigned, on behalf of the Roseville Natural Gas Financing Authority (the 'Authority'), hereby requests The Bank of New York Trust Company, N.A., as trustee (the 'Trustee'), pursuant to that certain Trust Indenture dated as of February 1, 2007, between the Authority and the Trustee, to pay from the moneys in the Costs of Issuance Fund established pursuant to Section 4.04 of the Trust Indenture, the amount shown on Exhibit A attached hereto to the order of the payees named on, and for the purposes specified in, such Exhibit A. Such payment is to be made by wire transfer to the account indicated by each payee in Schedules A hereto.

The undersigned hereby certifies that: (a) each of the items for which payment is requested is a proper charge against the Costs of Issuance Fund in the amount stated; and (b) no part of such payment shall be applied to any item which has previously been paid as a Costs of Issuance of the Bonds.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Indenture.

Dated as of the date first above mentioned.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____
W. Craig Robinson
Executive Director

Exhibit A

COSTS OF ISSUANCE REQUISITION NO. 1

Payee	Purpose	Amount
Orrick, Herrington & Sutcliffe LLP	Bond Counsel legal fees and expenses	$300,000
Moody's	Rating Agency fee	$100,000
S&P	Rating Agency fee	$100,000
Fitch	Rating Agency fee	$100,000
Image Master	Printing of Official Statement	$4,000
The Bank of New York Trust Company, N.A.	Trustee's Expenses	$4,750

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

REQUISITION NO. 1 (Gas Prepayment Fund)

February 6, 2007

The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108
Attention: Corporate Trust

Re: Disbursement from the Gas Prepayment Fund

The undersigned, on behalf of Roseville Natural Gas Financing Authority (the 'Authority'), hereby requests payment, from the Gas Prepayment Fund established pursuant to that certain Trust Indenture, dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee, of the total amount shown below to the order of the payee named below. The payee, the purpose and the amount of the disbursement requested are as follows:

Payee	Purpose	Amount
Merrill Lynch Commodities, Inc.	Prepayment	$212,661,363.06
Total		$212,661,363.06

The Remainder of this Page is Intentionally Left Blank.

The undersigned hereby certifies that the amount to be withdrawn from the Gas Prepayment Fund will be applied to the Prepayment that remains unpaid under the Prepaid Gas Agreement.

All capitalized terms used herein shall have the meanings given such terms pursuant to the Trust Indenture.

Dated as of the date first above mentioned.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: _____
W. Craig Robinson
Executive Director

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF CITY CLERK

I, Sonia Orozco, City Clerk of the City of Roseville, California (the "City"), HEREBY CERTIFY as follows:

1. that attached hereto as Exhibit A is a true and complete copy of Resolution No. 06-647, duly adopted by the City Council of the City at a meeting duly called and duly held on December 6, 2006, at which meeting a quorum was present and acting throughout. Such resolution has not been amended, modified, supplemented, rescinded or repealed and is in full force and effect in the form attached hereto as Exhibit A;

2. that attached hereto as Exhibit B is a true and complete copy of Resolution No. 07-22, duly adopted by the City Council of the City at a meeting duly called and duly held on January 17, 2007, at which meeting a quorum was present and acting throughout. Such resolution has not been amended, modified, supplemented, rescinded or repealed and is in full force and effect in the form attached hereto as Exhibit B;

3. that attached hereto as Exhibit C is a copy of the Charter of the City of Roseville. Said copy is a true, complete and correct copy of said Charter and said Charter has not been amended, modified, supplemented, rescinded or repealed and is in full force and effect in the form attached hereto as Exhibit C; and

4. that attached hereto as Exhibit D is a copy of those portions of the Roseville Municipal Code relating to the Roseville Electric System. Said copy is a true, complete and correct copy of such portions of the Roseville Municipal Code, are all provisions of the Roseville Municipal Code relating to the Roseville Electric System and such provisions have not been amended, modified, supplemented, rescinded or repealed and are in full force and effect in the form attached hereto as Exhibit D.

The Remainder of this Page is Intentionally Left Blank.

IN WITNESS WHEREOF, I have hereunto set my hand this 6th day of February, 2007.

Sonia Orozco
City Clerk

Exhibit A

RESOLUTION NO. 06-647

RESOLUTION NO. 06-647

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ROSEVILLE APPROVING, AUTHORIZING AND DIRECTING THE EXECUTION AND DELIVERY OF A JOINT EXERCISE OF POWERS AGREEMENT RELATING TO THE ROSEVILLE NATURAL GAS FINANCING AUTHORITY

WHEREAS, pursuant to the Joint Powers Act (capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Exhibit A hereto) two or more public agencies may enter into an agreement to establish an agency to exercise any power common to the contracting parties; and

WHEREAS, the City of Roseville (the "City") is a "public agency" as that term is defined in Section 6500 of the Joint Powers Act; and

WHEREAS, each of the City and the Redevelopment Agency of the City of Roseville is empowered to promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base; and

WHEREAS, the City owns and operates the Electric System for supplying the inhabitants, businesses and industries within the City with electricity; and

WHEREAS, certain electric generating units which are or will be part of the Electric System use natural gas as fuel; and

WHEREAS, the Electric System provides electricity at rates which promote economic development within the City; and

WHEREAS, it is necessary and in the public interest to provide natural gas to the Electric System on terms which allow such utility to continue to charge rates which promote economic development within the City; and

WHEREAS, it is the desire of the City to establish the Roseville Natural Gas Financing Authority as a separate entity under the Joint Powers Act to undertake projects and programs that promote economic development within the City, including implementing projects and programs to assist the City in procuring natural gas for the Electric System to be used as fuel for electric generating units which are or will be part of the Electric System; and

WHEREAS, such projects and programs may include, among other things, the Authority's issuance of Bonds pursuant to any applicable Bond Law, providing Credit Enhancement and Liquidity Support for Bonds, the entry into Public Finance Contracts, the entry into Gas Agreements, and the entry into Risk Management Contracts;

WHEREAS, the City has determined that it is to the City's advantage and in the public interest of the inhabitants of the City, to enter into the Joint Exercise of Powers Agreement relating to the Roseville Natural Gas Financing Authority with the Redevelopment Agency of the City of Roseville in order to establish an agency which will undertake programs and projects as described above.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF ROSEVILLE AS FOLLOWS:

Section 1. The Council hereby finds and determines that the recitals contained hereinabove are true and correct.

Section 2. The City Council hereby approves the Joint Exercise of Powers Agreement relating to the Roseville Natural Gas Financing Authority (the "Agreement") with the Redevelopment Agency of the City of Roseville in substantially the same form as the copy which is attached hereto as Exhibit B.

Section 3. The City Council of the City hereby authorizes the City Manager to execute the Agreement for, and on behalf of, the City and the City Clerk is hereby authorized to attest thereto.

Section 4. The City Council hereby authorizes the City Manager to make whatever nonsubstantive, administrative and/or text changes, upon advice of counsel, to the form of the Agreement attached hereto as Exhibit B as such officer shall approve, such approval to be conclusively evidenced by the execution of the Agreement.

Section 5. The City Council hereby authorizes each of the City Manager, the City Attorney, the City Clerk and all other proper officers and officials of the City to execute and deliver such other agreements, documents and certificates, and to perform such other acts and deeds, as may be necessary or convenient to effect the purposes of this Resolution and the transactions herein authorized.

Section 6. This Resolution shall take effect from and after its adoption, and thereupon and thereafter the same shall be in full force and effect.

PASSED AND ADOPTED by the Council of the City of Roseville this 6th day of December, 2006, by the following vote on roll call:

AYES COUNCILMEMBERS: Gray, Allard, Roccucci, Garbolino, Rockholm

NOES COUNCILMEMBERS: None

ABSENT COUNCILMEMBERS: None

MAYOR

ATTEST:

City Clerk

The foregoing instrument is a correct copy of the original on file in this office.

ATTEST:
City Clerk of the City of Roseville, California

DEPUTY CLERK

Res 06-647

EXHIBIT A

DEFINITION OF CERTAIN TERMS

The following terms shall have the meanings below for all purposes of the attached Resolution.

"Bond Act" means Article 2 and Article 4 of the Joint Powers Act, and any other State legislation whether currently in force or hereafter enacted, which authorizes the Authority to issue Bonds.

"Bonds" means bonds, notes, or other evidences of indebtedness issued by the Authority, or certificates of participation in leases or other agreements executed and delivered at the direction of the Authority, regardless of their structure, name or the statutory authority for their issuance.

"Credit Enhancement" means a municipal bond insurance policy, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of the principal of and interest on Bonds of the Authority.

"Electric System" means the municipal electric utility owned and operated by the City, including all electric generation, distribution, transmission, administrative and other properties and facilities, and all contract rights, currently included in such municipal electric utility or hereafter acquired.

"Gas Agreement" means an agreement pursuant to which the Authority purchases natural gas or sells natural gas.

"Indenture" mean an instrument providing for the issuance of Bonds and specifying the terms and conditions thereof and includes an indenture of trust, a trust agreement, a resolution, an order or any other instrument or proceeding.

"Joint Powers Act" means the Joint Exercise of Powers Act constituting Chapter 5 of Division 7 of Title 1 of the California Government Code.

"Liquidity Support" means a letter of credit, line of credit, standby bond purchase agreement or other surety or guarantee instrument guaranteeing, subject to the conditions thereof, the payment when due of the purchase price of Bonds tendered for purchase in accordance with the applicable Indenture. A Credit Enhancement may also constitute a Liquidity Support if it guarantees the payment of the purchase price of tendered Bonds as well as the principal of and interest on Bonds.

"Public Finance Contract" means a contract to place Bonds or investments of the Authority on the interest rate, currency, cash-flow or other basis desired by the Authority, including an interest rate swap agreement, a currency swap agreement, a forward payment

conversion agreement, a futures agreement, a contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, a contract to exchange cash flows or a series of payments, and a contract to hedge payment, currency, rate, spread or similar exposure, including interest rate floors and caps, swaptions, options, puts and calls authorized by Section 5920 *et seq.* of the California Government Code or any other legislative authority whether currently in effect or hereafter enacted.

"Risk Management Contract" means a forward contract, a futures contract, a put, call or swap agreement, an option or other contract or arrangement to place the price of natural gas purchased or sold by the Authority on the basis desired by the Authority.

EXHIBIT "B"

JOINT EXERCISE OF POWERS AGREEMENT

By and Between

CITY OF ROSEVILLE

and

REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE

Dated as of November 1, 2006

Relating to the

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

JOINT EXERCISE OF POWERS AGREEMENT

THIS JOINT EXERCISE OF POWERS AGREEMENT, dated as of November 1, 2006, by and between the City of Roseville, a municipal corporation and a chartered city duly organized and existing under the laws of the State of California and its Charter, and the Redevelopment Agency of the City of Roseville, a public body corporate and politic duly organized and existing under the laws of the State of California:

WITNESSETH

WHEREAS, pursuant to the Joint Powers Act (capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Section 1 hereof) two or more public agencies may enter into an agreement to establish an agency to exercise any power common to the contracting parties; and

WHEREAS, each of the Parties is a "public agency" as that term is defined in Section 6500 of the Joint Powers Act; and

WHEREAS, each of the Parties is empowered to promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base; and

WHEREAS, the City owns and operates the Electric System for supplying the inhabitants, businesses and industries within the City with electricity; and

WHEREAS, certain electric generating units which are or will be part of the Electric System use natural gas as fuel; and

WHEREAS, the Electric System provides electricity at rates which promote economic development within the City; and

WHEREAS, it is necessary and in the public interest to provide natural gas to the Electric System on terms which allow such utility to continue to charge rates which promote economic development within the City; and

WHEREAS, it is the desire of the Parties to establish the Roseville Natural Gas Financing Authority as a separate entity under the Joint Powers Act and this Agreement to undertake projects and programs that promote economic development within the City, including projects and programs to assist the City in procuring natural gas to be used as fuel for electric generating units which are or will be part of the Electric System; and

NOW, THEREFORE, the Parties, for and in consideration of the mutual promises and agreements herein contained, do agree as follows:

SECTION 1. DEFINITIONS.

Unless the context otherwise requires, the following terms shall have the meanings set forth below for all purposes of this Agreement:

"Agreement" means this Joint Exercise of Powers Agreement, as the same may be amended and supplemented form time to time.

"Authority" means the Roseville Natural Gas Financing Authority created and established pursuant to this Agreement.

"Board" means the Board of Directors established as the governing body of the Authority pursuant to Section 4(B).

"Bond Act" means Article 2 and Article 4 of the Joint Powers Act, and any other State legislation whether currently in force or hereafter enacted, which authorizes the Authority to issue Bonds.

"Bonds" means bonds, notes, or other evidences of indebtedness issued by the Authority, or certificates of participation in leases or other agreements executed and delivered at the direction of the Authority, regardless of their structure, name or the statutory authority for their issuance.

"Brown Act" means the Ralph M. Brown Act, constituting Sections 54950 through 54963 of the California Government Code.

"City" means the City of Roseville, California.

"Chair" means the Chair of the Board pursuant to Section 4 (C)(1).

"Credit Enhancement" means: (i) with respect to Bonds, a municipal bond insurance policy, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of the principal of and interest on such Bonds; and (ii) with respect to a Gas Agreement, a Public Finance Contract and a Risk Management Contract, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of all or any portion of the payments under such Gas Agreement, Public Finance Contract or Risk Management Contract.

"Director" means a member of the Board in office pursuant to Section 4(B).

"Electric System" means the municipal electric utility owned and operated by the City, including all electric generation, distribution, transmission, administrative and other properties and facilities, and all contract rights, currently included in such municipal electric utility or hereafter acquired.

"Executive Director" means the Executive Director of the Authority pursuant to Section 4(C)(1).

"Fiscal Year" means the fiscal year of the Authority being, until changed by resolution of the Board, the period from July 1 to and including the following June 30 except for the first Fiscal Year which shall be the period from the effective date of this Agreement to June 30, 2007.

"Gas Agreement" means an agreement pursuant to which the Authority purchases natural gas or sells natural gas.

"Indenture" means an instrument providing for the issuance of Bonds and specifying the terms and conditions thereof and includes an indenture of trust, a trust agreement, a resolution, an order or any other instrument or proceeding.

"Joint Powers Act" means the Joint Exercise of Powers Act constituting Chapter 5 of Division 7 of Title 1 of the California Government Code.

"Liquidity Support" means a letter of credit, line of credit, standby bond purchase agreement or other surety or guarantee instrument guaranteeing, subject to the conditions thereof, the payment when due of the purchase price of Bonds tendered for purchase in accordance with the applicable Indenture. A Credit Enhancement with respect to Bonds may also constitute Liquidity Support if it guarantees the payment of the purchase price of tendered Bonds as well as the principal of and interest on Bonds.

"Party" means each of the City and the Redevelopment Agency.

"Public Finance Contract" means a contract to place Bonds or investments of the Authority on the interest rate, currency, cash-flow or other basis desired by the Authority, including an interest rate swap agreement, a currency swap agreement, a forward payment conversion agreement, a futures agreement, a contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, a contract to exchange cash flows or a series of payments, and a contract to hedge payment, currency, rate, spread or similar exposure, including interest rate floors and caps, swaptions, options, puts and calls authorized by Section 5920 *et seq.* of the California Government Code or any other legislative authority whether currently in effect or hereafter enacted.

"Redevelopment Agency" means the Redevelopment Agency of the City of Roseville.

"Risk Management Contract" means a forward contract, a futures contract, a put, call or swap agreement, an option or other hedging contract or arrangement to place the price of natural gas purchased or sold by the Authority on the basis desired by the Authority.

"Secretary" means the Secretary of the Board pursuant to Section 4 (C)(1).

"State" means the State of California.

"Treasurer" means the treasurer and auditor of the Authority pursuant to Section 4 (C)(2).

"Vice Chair" means the Vice Chair of the Board pursuant to Section 4 (C)(1).

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neutral genders. Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including districts, agencies and other public bodies, as well as natural persons. Unless otherwise indicated, references in this Agreement to paragraphs, subsections, and Sections are to such paragraphs, subsections, and Sections of this Agreement. Unless the context requires otherwise, the terms "herein," "hereof," "hereunder" and any similar terms, as used in this Agreement, shall refer to this Agreement as a whole and not to any particular provisions of this Agreement. Defined terms shall include any variant of the terms set forth in this Section. The term "including" shall be construed to mean "including without being limited to."

SECTION 2. PURPOSE.

It is the purpose of this Agreement to establish, pursuant to the provisions of the Joint Powers Act, an agency for and with the purpose of undertaking projects and programs that promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base. Such projects and programs include assisting the City in procuring natural gas to be used as fuel for electric generating units which are part of the Electric System. Such assistance may include, among other things, the Authority's issuance of Bonds pursuant to any applicable Bond Law, providing Credit Enhancement and Liquidity Support for Bonds, the entry into Gas Agreements, Public Finance Contracts and/or Risk Management Contracts and providing Credit Enhancement for all or any portion of such Gas Agreements, Public Finance Contracts and Risk Management Contracts. Such purpose will be accomplished and said powers exercised in the manner hereinafter set forth.

SECTION 3. TERM.

This Agreement shall become effective in accordance with Section 18 hereof as of the date first above written and shall continue in full force and effect for a period of sixty (60) years from such date, or until such earlier time as it is terminated by a writing signed by all the Parties; provided, however, that, notwithstanding the foregoing, this Agreement shall not expire or be terminated until the date on which: (i) all Bonds issued by the Authority shall have been paid or deemed paid in accordance with the applicable Indenture; (ii) all contracts and agreements of the Authority, including all Gas Agreements, Public Finance Contracts, Risk Management Contracts, contracts and agreements relating to Credit Enhancement and Liquidity Support, (a) shall have expired or been otherwise terminated and all amounts owed by the Authority thereunder have been paid or (b) the Authority's obligations thereunder have been transferred or assigned to another party in accordance with the terms of such contracts and agreements; and (iii) all other indebtedness and liabilities incurred by the Authority shall have been paid.

SECTION 4. THE AUTHORITY.

A. CREATION OF AUTHORITY.

Pursuant to the Joint Powers Act, there is hereby created a public entity, separate and apart from the Parties, to be known as the Roseville Natural Gas Financing Authority. The Authority's debts, liabilities and obligations do not and will not constitute debts, liabilities or obligations of either Party; provided that nothing in this Agreement shall limit a Party's authority or ability to enter into separate agreements with the Authority pursuant to which the Party agrees to make payments in connection with debts, liabilities or obligations of the Authority, including Bonds, Gas Agreements, Public Finance Contracts, Risk Management Contracts, contracts and agreements relating to Credit Enhancement and Liquidity Support.

B. BOARD OF DIRECTORS.

(1) The governing body of the Authority shall be a Board of Directors which shall consist of the members of the City Council of the City. The Board shall be the administering agency of this Agreement and, as such, shall be vested with all the powers of the Authority and shall execute and administer this Agreement in accordance with the purposes set forth herein.

(2) Directors shall not receive any compensation for serving as Directors but shall be entitled to reimbursement for any expenses actually incurred in connection with serving as a Director if the Board shall determine that such expenses shall be reimbursed and there are unencumbered funds available for such purpose.

C. OFFICERS; DUTIES; OFFICIAL BONDS.

(1) The Mayor of the City shall be the Chair of the Board, the Mayor Pro Temporare shall be the Vice Chair of the Board, the City Clerk of the City shall be the Secretary of the Authority and the City Manager shall be the Executive Director of the Authority. Each of the Chair, the Vice Chair, the Executive Director and any other officer of the Authority authorized by Board resolution is authorized to execute any and all Bonds, contracts, agreements, instruments and other documents on behalf of, and in the name of, the Authority. The Secretary shall attest to the signature of an officer on any such Bond, contract, agreement, instrument and other document when required to do so by Board resolution and shall perform the normal duties of the secretary of an organization such as the Authority, including maintaining custody of the records of the Board and the Authority. The Executive Director shall be the chief executive officer of the Authority and as such implement the policy decisions and the directors of the Board. The Chair, the Vice Chair, the Executive Director and the Secretary shall have such other powers, duties and responsibilities as shall be determined by the Board.

(2) The Treasurer of the City shall serve as both treasurer and auditor of the Authority. The Treasurer shall have the powers, duties and responsibilities specified in the Joint Powers Act for the treasurer and auditor of a separate entity established thereunder and shall comply with all of the duties and responsibilities of the offices of treasurer and auditor of a separate entity formed under the Joint Powers Act set forth in the Joint Powers Act.

Subject to the provisions of each Indenture providing for a trustee or other fiscal agent, the Treasurer is designated as the depositary of the Authority to have custody of all money of the Authority from whatever source derived. Subject to the provisions of each Indenture and any contracts authorized by the Board for the lease, operation or custody of Authority property, the Treasurer is designated as the public officer or person who has charge of, handles, and has access to all property of the Authority.

The Treasurer shall file an official bond with the Secretary of the Authority in the amount of $1,000 or such greater amount as shall be specified by the Board. If and to the extent permitted by law, the Treasurer may satisfy this requirement by filing an official bond in at least said amount obtained in connection with another public office so long as such official bond includes coverage of the Treasurer as such officer of the Authority.

(3) The Board shall have the power to appoint from time to time such other officers, agents, employees, counsel and accountants, and to specify their respective powers, duties and responsibilities, as it may deem necessary or convenient.

(4) The Board shall have the power, to the extent permitted by the Joint Powers Act or any other applicable law, to delegate any of its functions to one or more Directors, officers, employees or agents of the Authority, and to cause any of said Directors, officers, employees or agents to take any actions for and in the name and on behalf of the Board or the Authority.

D. MEETINGS OF THE BOARD.

(1) Ralph M. Brown Act.

All meetings of the Board, including regular, adjourned regular, special, and adjourned special meetings shall be scheduled, called, noticed, held and conducted in accordance with the provisions of the Brown Act.

(2) Regular Meetings.

The Board shall hold at least one regular meeting during each Fiscal Year. The date, hour and place of the holding of the regular meetings shall, if requested by a Party, be filed with such Party.

(3) Special Meetings.

Special meetings of the Board for any purpose or purposes may be called at any time by the Chair or a majority of Directors then in office. Special meetings of the Board may be held at any time specified in the notice of the meeting which is consistent with the notice and other provisions of the Brown Act.

(4) Minutes.

The Secretary of the Authority shall cause to be kept minutes of the regular, adjourned regular, special, and adjourned special meetings of the Board and shall, as soon as possible after each meeting, cause a copy of the minutes to be delivered to each Director.

(5) Quorum.

A majority of the Directors then in office, but no less than three, shall constitute a quorum for the transaction of business. No action may be taken by the Board except upon the affirmative vote of a majority of the Directors then in office, except that less than a quorum may adjourn a meeting to another time and place.

E. RULES AND REGULATIONS.

The Authority may adopt, from time to time, by resolution of the Board, such rules and regulations for the conduct of its meetings and affairs as the Board determines are necessary or convenient.

SECTION 5. POWERS.

The Authority shall have any and all powers necessary or convenient in accomplishing its purposes (as set forth in Section 2) which are authorized by law to each of the Parties hereto and separately to the public entity herein created, including all powers which are incidental to express powers. All such powers, whether common to the Parties or separately conferred by law upon the Authority, are specified as powers of the Authority.

Without limiting the generality of the preceding paragraph, the Authority is hereby authorized, in its own name, to do any and all of the following: to sue and be sued; to make and enter into contracts, including but not limited to (i) Gas Agreements, (ii) Risk Management Contracts, (iii) Public Finance Contracts, and (iv) contracts and agreements relating to Credit Enhancement and/or Liquidity Support for Bonds, Gas Agreements, Public Finance Contracts and Risk Management Contracts; to employ agents, consultants, attorneys and employees; to acquire, construct, maintain and operate (or to provide for maintenance and operation of) any buildings, works or improvements; to acquire, hold or dispose of property, whether real or personal, tangible or intangible, wherever located; to issue Bonds and to pledge any property (whether real or personal, tangible or intangible and/or revenues as security for such Bonds; and to receive gifts, contributions and donations of property, funds, services and other forms of assistance from persons, firms, corporations and any governmental entity.

SECTION 6. MANNER OF EXERCISING POWERS.

To the extent required by Section 6509 of the Joint Powers Act, the manner in which the Authority shall exercise its powers and perform its duties is and shall be subject to the restrictions upon the manner in which the City could exercise such powers and perform such duties. The manner in which the Authority shall exercise its powers and perform its duties shall not be subject to any restrictions applicable to the manner in which any other public agency could exercise such powers or perform such duties, whether such agency is a Party to this Agreement or not.

SECTION 7. DISPOSITION OF ASSETS.

At the end of the term hereof or upon the earlier termination of this Agreement as set forth in Section 3, after payment of all expenses and liabilities of the Authority, all property of the Authority both real and personal shall automatically vest in the Parties in equal shares and

shall thereafter remain the sole property of the respective Parties; provided, however, that any surplus money on hand shall be returned in proportion to the contributions made by the Parties and if no contributions have been made in proportion to the payments made by each of the Parties to or for the account of the Authority in connection with its projects and programs, including payments with respect to Bonds, Gas Agreements, Public Finance Contracts, Risk Management Contracts, agreements relating to Credit Enhancement and/or Liquidity Support for Bonds, Gas Agreements, Public Finance Contracts and Risk Management Contracts; and any other agreements or obligations of the Authority.

SECTION 8. BONDS.

A. ISSUANCE OF BONDS.

The Authority may, when authorized by any Bond Act and by resolution of the Board, issue Bonds for the purpose of raising funds for the exercise of its powers or otherwise to carry out its purposes under this Agreement. Said Bonds may have such terms and conditions as shall be authorized by the Board.

B. BONDS SPECIAL OBLIGATIONS.

The Bonds, including the principal, redemption price and purchase price (to the extent payable by the Authority pursuant to the applicable Indenture(s) upon tender for purchase in accordance with the provisions of such Indenture(s)) and the interest thereon, shall be special obligations of the Authority payable solely from, and secured solely by, the revenues, funds and other assets pledged therefor under the applicable Indenture(s) and shall not constitute a charge against the general credit of the Authority. The Bonds shall not be secured by a legal or equitable pledge of, or lien or charge upon or security interest in, any property of the Authority or any of its income or receipts except the property, income and receipts pledged therefor under the applicable Indenture(s). Neither the faith and credit nor the taxing power of the State of California, the City, the Redevelopment Agency or any other public agency shall be pledged to the payment of the principal, redemption price or purchase price of, or the interest on, the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the State or any political subdivision thereof, including the City and the Redevelopment Agency, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal, redemption price or purchase price of, or interest on, the Bonds shall not constitute a debt, liability or obligation of the State or any public agency, including the City and the Redevelopment Agency (other than the special obligation of the Authority as provided in the applicable Indenture(s)).

No covenant or agreement contained in any Bond or Indenture shall be deemed to be a covenant or agreement of any Director, officer, agent or employee of the Authority in his individual capacity and no Director or officer of the Authority executing a Bond shall be liable personally on such Bond or be subject to any personal liability or accountability by reason of the issuance of such Bond.

SECTION 9. PUBLIC FINANCE CONTRACTS AND RISK MANAGEMENT CONTRACTS.

In the exercise of a common power of the Parties or a power conferred upon the Authority by any law (whether currently in force or hereafter enacted) as an entity separate from the Parties, and when authorized by resolution of the Board, the Authority may enter into Public Finance Contracts and/or Risk Management Contracts with respect to interest rates, natural gas prices or other matters relating to any of the Authority's projects, programs, assets and/or liabilities and Credit Enhancement agreements in connection with any or all of such agreements. Such Public Finance Contracts, Risk Management Contracts and Credit Enhancement agreements may have such terms and conditions as shall be authorized by the Board.

SECTION 10. ACCOUNTS AND REPORTS.

A. BOOKS AND RECORDS.

All funds of the Authority shall be strictly accounted for in books of account maintained by, or on behalf of, the Authority which shall report all receipts and disbursements of Authority funds. The Authority shall establish and maintain such funds and accounts as may be required by good accounting practice and by each Indenture for outstanding Bonds (to the extent such duties are not assigned to trustees under the Indentures). The books and records of the Authority shall be open to inspection at all reasonable times by each Party.

The Authority shall require that each Indenture provide that the trustee appointed thereunder shall establish suitable funds and furnish suitable financial reports in connection with the funds held by such trustee.

B. AUDIT.

The Treasurer shall cause an independent audit to be made of the books of account and financial statements of the Authority, and shall cause such financial statements and audit to be filed and reported, in compliance with the requirements of the Joint Powers Act. Any costs of the audit, including contracts with, or employment of, certified public accountants or public accountants in making an audit pursuant to this Section shall be borne by the Authority and, to the extent not paid from funds provided pursuant to one or more of the Authority's projects or programs, shall be a charge against any unencumbered funds of the Authority available for that purpose.

SECTION 11. FUNDS.

Subject to the applicable provisions of each Indenture, which may provide for a trustee to receive, have custody of and disburse funds that constitute Authority funds, the Treasurer of the Authority shall receive, have the custody of and disburse Authority funds pursuant to accounting procedures approved by the Board, and shall make the disbursements necessary or convenient in carrying out any of the provisions or purposes of this Agreement.

SECTION 12. NOTICES.

Notices and other communications hereunder to a Party shall be sufficient if delivered: with respect to the City, to the City Clerk of the City; and if to the Redevelopment Agency, to the secretary of the Redevelopment Agency.

SECTION 13. INDEMNIFICATION.

To the full extent permitted by law, the Board may authorize indemnification by the Authority of any person who is or was a Director, or an officer, employee or other agent of the Authority, and who was or is a party or is threatened to be made a party to a proceeding by reason of the fact that such person is or was such a Director, officer, employee or other agent of the Authority, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Authority and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful and, in the case of any action by or in the right of the Authority, acted with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

SECTION 14. CONTRIBUTIONS AND ADVANCES.

Without limiting the power of the Authority to accept contributions from persons other than the Parties, contributions or advances of public funds and of the use of personnel, equipment or property may be made to the Authority by the Parties hereto for any of the purposes of this Agreement. Any advance of funds by a Party may be made subject to repayment, and in such case shall be repaid, in the manner agreed upon by the Authority and the Party making such advance.

SECTION 15. IMMUNITIES.

All of the privileges and immunities from liabilities, exemptions from laws, ordinances and rules, all pension, relief, disability, workers' compensation, and other benefits which apply to the activity of officers, agents, employees or other representatives of a Party when performing their respective functions within the territorial limits of their public agency, shall apply to them to the same degree and extent while engaged as a Director, officer, agent, employee or other representative of the Authority or while engaged in the performance of any of their functions or duties under the provisions of this Agreement whether within or outside of the boundaries of the applicable Party.

SECTION 16. CONSULTANTS AND ADVISORS.

The Authority may employ the services of independent counsel, including bond and other special counsel, financing, engineering, utility, natural gas and other consultants and advisors, and accountants and auditors in connection with the programs and projects undertaken pursuant to this Agreement, including the issuance of Bonds and the entry into Gas Agreements, Public Finance Contracts, Risk Management Contracts, and Credit Enhancement agreements in connection therewith. The fees and expenses of such counsel, consultants, advisors, accountants and auditors, and the expenses of the Authority in connection with such programs and projects,

shall, to the extent not paid from funds received pursuant to one or more agreements relating to such projects and programs, be paid from the proceeds of Bonds or any other unencumbered funds of the Authority available for such purpose.

SECTION 17. AMENDMENTS.

This Agreement shall not be amended, modified, or altered except by a written instrument duly executed by each of the Parties.

SECTION 18. EFFECTIVENESS.

This Agreement shall become effective and be in full force and effect and a legal, valid and binding obligation of each of the City and the Redevelopment Agency at 9:00 a.m., California time, on the first date as of which each Party shall have received from the other an executed counterpart of this Agreement, together with a certified copy of a resolution of the governing body of such Party approving this Agreement and the execution and delivery hereof.

SECTION 19. PARTIAL INVALIDITY.

If any one or more of the terms, provisions, promises, covenants or conditions of this Agreement shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of this Agreement shall not be affected thereby, and shall be valid and enforceable to the fullest extent permitted by law.

SECTION 20. SUCCESSORS.

This Agreement shall be binding upon and shall inure to the benefit of the successors of the Parties hereto. Except to the extent expressly provided herein, no Party may assign any right or obligation hereunder without the consent of the other Party.

SECTION 21. MISCELLANEOUS.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The section headings herein are for convenience only and are not to be construed as modifying or governing the language in the section referred to.

Each of the Parties represents and warrants that it possesses the common powers referred to in the recitals hereof. Nothing in this Agreement shall be construed as a limitation on the rights of the Parties to exercise the common powers referred to in the recitals hereof outside of this Agreement.

This Agreement is made in the State, under the Constitution and laws of the State and is to be construed as a contract made and to be performed in the State.

This Agreement is the complete and exclusive statement of the agreement between the Parties with respect to the subject matter hereof, and this Agreement supersedes and

merges all prior proposals, understandings, and other agreements, whether oral, written, or implied in conduct, between the Parties relating to the subject matter of this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested to by their proper officers thereunto duly authorized, as of the day and year first above written.

Dated: _____2006

CITY OF ROSEVILLE

By: _____
City Manager

Approved as to form:

_____
City Attorney

Attest:

By: _____
City Clerk

Dated: _____, 2006

REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE

By: _____
Executive Director

Approved as to form:

_____
Agency Counsel

Attest:

By: _____
Agency Secretary

Exhibit B

RESOLUTION NO. 07-22

RESOLUTION NO. 07-22

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ROSEVILLE AUTHORIZING AND APPROVING A NATURAL GAS SUPPLY AGREEMENT AND AUTHORIZING AND APPROVING OTHER DOCUMENTS AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION WITH THE ACQUISITION AND SALE OF NATURAL GAS

WHEREAS, the City of Roseville (the "City") owns and operates a municipal electric system for supplying the inhabitants, businesses and industries within the City with electricity (the "Electric System"); and

WHEREAS, certain electric generating units which will be a part of the Electric System (the "Units") will use natural gas as fuel; and

WHEREAS, it is necessary and in the public interest to provide natural gas as fuel for the Units on terms which allow the Electric System to continue to charge rates which promote economic development within the City; and

WHEREAS, the Roseville Natural Gas Financing Authority (the "Authority") has been established as a separate entity under the California Joint Exercise of Powers Act to undertake projects and programs that promote economic development within the City, including implementing projects and programs to assist the City in procuring natural gas for electric generating units which are or will be a part of the Electric System; and

WHEREAS, such projects and programs may include, among other things, the Authority's issuance of bonds pursuant to any applicable bond law, the entry into natural gas price swap agreements with respect to such bonds, the entry into agreements with respect to the purchase of natural gas by the Authority and the sale of natural gas to the City; and

WHEREAS, the City proposes to enter into the Natural Gas Supply Agreement (in the form on file with the City Clerk as Exhibit A with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to as the "Supply Agreement"), between the City and the Authority; and

WHEREAS, certain Contract Price payments due from the City under the Supply Agreement are to be insured by Financial Security Assurance Inc. ("FSA") under a financial guaranty insurance policy (the "Customer Insurance Policy"); and

WHEREAS, pursuant to the Reimbursement Agreement (in the form on file with the City Clerk as Exhibit B with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to as the "Reimbursement Agreement"), between the City and FSA, the City will be obligated to reimburse advances by FSA under the Customer Insurance Policy, and to pay interest thereon and expenses related thereto, from the Electric System revenues, on the terms and conditions set forth in the in the Reimbursement Agreement;

WHEREAS, in connection with the sale of the Authority's Bonds, the Authority will distribute a Preliminary Official Statement which will be substantially in the form attached hereto

as Exhibit C (the "Preliminary Official Statement") and will distribute a final Official Statement (the "Official Statement") which will be substantially in the form of the Preliminary Official Statement, as distributed, with the terms of the Bonds inserted; and

WHEREAS, certain information concerning the City and the Electric System will be contained in the Preliminary Official Statement and the final Official Statement; and

WHEREAS, under the Supply Agreement the City has agreed to make available certain financial and operating information concerning the Electric System as provided in the Continuing Disclosure Agreement (the Continuing Disclosure Agreement in the form attached to the Preliminary Official Statement as Appendix F, with such changes, insertions and deletions as are made pursuant to this Resolution, being referred to as the "Continuing Disclosure Agreement"); and

WHEREAS, the City has determined that it is to the City's advantage and in the public interest of the inhabitants of the City, to enter into the Supply Agreement, the Reimbursement Agreement and the Continuing Disclosure Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF ROSEVILLE AS FOLLOWS:

Section 1. The Council hereby finds and determines that the recitals contained hereinabove are true and correct.

Section 2. The Supply Agreement, in substantially the form on file with the City Clerk as Exhibit A and made a part hereof as though set forth in full herein, be and the same is hereby approved. Each of the Mayor, the Mayor Pro Tem and the City Manager (each an "Authorized Officer"), acting singly, is hereby authorized to execute, and deliver to the Authority, the Supply Agreement in the name of and on behalf of the Authority, in substantially the form attached hereto as Exhibit A with such changes, insertions and deletions (subject to the provisions of the next sentence) as may be approved by the Authorized Officer executing the Supply Agreement, said execution being conclusive evidence of such approval, and the City Clerk is hereby authorized to attest thereto. The term of the Supply Agreement shall not extend beyond December 1, 2030; the amount of natural gas originally scheduled to be purchased under the Supply Agreement shall not be more than 12,000 MMBtu in any one day; and the Contract Price for natural gas delivered under the Supply Agreement in any Delivery Month shall not exceed the Index Price per MMBtu for such Delivery Month less a discount not less than $0.25.

Section 3. The Reimbursement Agreement, in substantially the form on file with the City Clerk as Exhibit B and made a part hereof as though set forth in full herein, is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized to execute, and deliver to FSA, the Reimbursement Agreement in the name of and on behalf of the Authority in substantially the form on file with the City Clerk as Exhibit B, with such changes, insertions and deletions (subject to the provisions of the next sentence) as may be consistent with this Resolution and the determinations made pursuant hereto and as may be approved by the Authorized Officer executing such Reimbursement Agreement, said execution being conclusive evidence of such approval, and the City Clerk is hereby authorized to attest thereto.

Section 4. The City Council hereby approves the information concerning the City contained in the form of the Preliminary Official Statement on file with the City Clerk as Exhibit C (the "City Information"). Each of the Authorized Officers, acting singly, is hereby authorized to approve, in the name of and on behalf of the City, any changes to the City Information deemed necessary or appropriate by such Authorized Officer. The City Council hereby authorizes the inclusion of City Information, as changed pursuant to this Section, in the Preliminary Official Statement and the final Official Statement and to deem such information final for purposes of the Rule.

Section 5. The Continuing Disclosure Agreement, in substantially the form attached to the Preliminary Official Statement as Appendix F and made a part hereof as though set forth in full herein, is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized to execute, and deliver to the Trustee, the Continuing Disclosure Agreement in the name of and on behalf of the City in substantially the form attached to the Preliminary Official Statement as Appendix F, with such changes, insertions and deletions as may be approved by the Authorized Officer executing such Continuing Disclosure Agreement, said execution being conclusive evidence of such approval, and the City Clerk is hereby authorized to attest thereto.

Section 6. The City Council hereby authorizes each of the City Manager, the City Attorney, the City Clerk and all other proper officers, officials and employees of the City to execute and deliver such other agreements, documents and certificates, and to perform such other acts and deeds, as may be necessary or convenient to effect the purposes of this Resolution and the documents, instruments and transactions herein authorized.

Section 7. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the form of the Supply Agreement on file with the City Clerk as Exhibit A.

Section 8. This Resolution shall take effect upon its adoption, and thereupon and thereafter the same shall be in full force and effect.

PASSED AND ADOPTED by the Council of the City of Roseville this 17th day of January, 2007, by the following vote on roll call:

AYES COUNCILMEMBERS: Allard, Roccucci, Garcia, Garbolino, Gray

NOES COUNCILMEMBERS: None

ABSENT COUNCILMEMBERS: None

Jim Gray
MAYOR

ATTEST:

Sonia Orozco
City Clerk

Exhibit C

CITY CHARTER

The Charter

Editor's note. — The Charter consists of Stats. 1955, p. 3718. It was adopted pursuant to Section 8 of article XI of the state Constitution, ratified by the qualified voters of the city at an election held on November 2, 1954, approved by the State Legislature on January 5, 1955 and filed with the Secretary of State on January 10, 1955.

Catchlines have been supplied by the editor where particular sections of the original had no catchline. Except for corrections of printing errors and the employment of a uniform system of capitalization, the Charter remains unchanged in this volume.

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Preamble.

We, the people of the City of Roseville, State of California, do ordain and establish this charter as the organic law of said city under the Constitution of said State.

Article I. Incorporation, Succession, and Powers.

Sec. 1.01. Corporate name; seal.

The municipal corporation now existing and known as the City of Roseville shall remain and continue a body politic and corporate in name and in fact, by the same name. The city may have and use a common seal, and alter the same at its pleasure.

Sec. 1.02. Boundaries.

The boundaries of the City of Roseville shall continue as now established until changed in the manner authorized by law.

Sec. 1.03. Rights and liabilities.

The City of Roseville shall remain vested with, and continue to have, hold, and enjoy all property, rights of property and rights of action of every nature and description now pertaining to this municipality, and is hereby declared to be the successor of the same. The city shall be subject to all the liabilities that now exist against the municipal corporation.

Sec. 1.04. Continuance of ordinances.

All lawful ordinances, resolutions, rules and regulations, or portions thereof, in force at the time this charter takes effect and not in conflict with or inconsistent herewith, are hereby continued in force until the same have been duly repealed, amended, changed or superseded by proper authority.

Sec. 1.05. Continuance of contracts and public improvements.

All contracts entered into by the city, or for its benefit prior to the effective date of this charter, shall continue in full force and effect. Public improvements, for which proceedings have been instituted under laws existing at the time this charter takes effect, may in the discretion of the council, be carried to completion as nearly as practicable in accordance with the provisions of such existing laws or may be continued or perfected under this charter.

Sec. 1.055. Genders.

The citizens of Roseville intend that where a male pronoun is used in this charter it includes the female gender on an equal basis. (Amended April 13, 1982.)

Sec. 1.06. Continuance of pending actions and proceedings.

No action or proceeding, civil or criminal, pending at the time when this charter takes effect, brought by or against the city or any officer, office, department or agency thereof, shall be affected or abated by the adoption of this charter or by anything herein contained, but all such actions or proceedings may be continued notwithstanding that functions, powers and duties of any officer, office, department or agency a party thereto, may be assigned or transferred by or under this charter to another officer, office, department or agency, but in that event the same may be prosecuted or defended by the head of the office, department or agency to which such functions, powers and duties have been assigned or transferred by or under this charter.

Sec. 1.07. Powers of the city.

The city shall have the power to make and enforce all laws and regulations in respect to municipal affairs, subject to such restrictions and limitations as may be provided in this charter and in the Constitution of the State of California. It shall also have the power to exercise any and all rights, powers and privileges heretofore or hereafter established, granted or prescribed by any law of the State, by this charter, or by other lawful authority, or which a municipal corporation might or could exercise under the Constitution of the State of California.

The enumeration in this charter of any particular power shall not be held to be exclusive of, or any limitation upon, this general grant of power.

Article II. Plan of Government.

Sec. 2.01. Form of government.

The intent of this charter is to adopt the council-manager form of government.

Sec. 2.02. Elective officers.

The electors of the city shall elect a council of five (5) members, at large, for a four (4) year term of office. The council shall constitute the legislative and governing body of the city and shall have authority, except as otherwise provided in this charter, to exercise all powers of the city, and to adopt such ordinances and resolutions as may be proper in the exercise thereof. Two (2) and three (3) councilmembers shall be elected alternately at the General Municipal Election each even-numbered year. No councilmember shall serve more than two (2) consecutive four (4) year terms, commencing as of a date subsequent to April 9, 1974.

Councilmembers whose term of office would otherwise have terminated in November, 1995 or 1997, shall have their term of office terminate in November, 1996 or 1998, respectively. Any such term shall be considered a full term of office for purposes of the two (2)-term limitation of this section. Provided, however, that notwithstanding any other provision of this charter to the contrary, at the first meeting of the City Council held in November 1995, the City Council shall choose one of its members to serve as mayor and one of its members to serve as mayor pro tempore until their successors assume office following the general municipal election in 1996. (Amended December 22, 1993: amended April 10, 1984: amended April 13, 1982: Res. No. 240.)

Sec. 2.03. Assumption of office by, meeting of council, and seating of mayor and mayor pro tempore.

The council shall assume office, subject to the qualifying provisions of this charter, from and after twelve o'clock noon on the second Monday next succeeding the day of their election. The council shall hold its first meeting at that time. The councilmember who received the highest number of votes in the latest election shall be seated as mayor pro tempore. The mayor pro tempore's term of office shall commence upon his or her assumption of office and continue until the election, qualification and assumption of office of his or her successor following the next general municipal election. Upon the termination of a councilmember's term of office as mayor pro tempore, he or she shall be seated as mayor. The mayor's term of office shall commence upon his or her assumption of office and continue until the assumption of his or her successor following the next general municipal election.

Provided, however, that following the first general municipal election which occurs subsequent to the adoption of this section, a councilmember who did not receive the highest number of votes at the election (whether or not elected at said election or prior thereto) shall be chosen as mayor by the city council upon a roll-call vote of the council. That person's term of office as mayor shall commence upon the assumption of office and shall continue until the assumption of office of his or her successor following the next general municipal election. (Amended December 22, 1993: amended May 20, 1980.)

Sec. 2.04. Powers and duties of mayor.

The mayor shall be the official head of the city government for purposes of ceremony and serve as the presiding officer at meetings of the council, in which meetings the mayor may speak and vote as any other councilmember. The mayor shall not have the power of veto or regular administrative duties and shall exercise such powers, and only such powers, as shall be specifically conferred or required by

law. The mayor shall be recognized as the official head of the city by the courts for the purpose of serving civil process and by the governor for military purposes.

Sec. 2.05. Mayor pro tempore.

In the temporary absence or disability of the mayor, the mayor pro tempore shall exercise the duties and prerogatives of the mayor. The mayor shall, whenever possible, notify the city clerk of his intended absence from the city and shall in every instance notify the clerk at the time he reassumes his duties. In the event both the mayor and mayor pro tempore are unable to perform their duties, the council may appoint one of its members to act only as chairman of a meeting.

Sec. 2.06. City attorney.

The council shall appoint a city attorney to serve at its pleasure. The pleasure of the council in appointing or discharging the city attorney shall be exercised by at least three affirmative votes. The attorney shall act as legal advisor to and counsel for the council and manager in matters relating to their official duties. The attorney shall represent the city in litigations in which the city is interested; shall provide written legal opinion on official matters when requested by the council or manager; shall review for legal correctness contracts, bonds, franchises and other instruments in which the city is concerned, and perform such other duties as may be prescribed by ordinance, by administrative code, or otherwise by law. The attorney may appoint and remove deputy or assistant attorneys, which deputies and assistants shall serve at the attorney's pleasure, provided that recruitment of such attorneys shall be through the merit system. (Amended April 13, 1982.)

Sec. 2.07. City manager.

The council shall appoint a chief administrative officer of the city government who shall be entitled city manager, and who shall serve at the pleasure of the council. The pleasure of the council in appointing or discharging the city manager shall be exercised by at least three affirmative votes. If a vacancy occurs in this position, the council shall select a manager within ninety (90) days from the time such vacancy occurs. The manager shall be selected on the basis of his training, experience and other administrative qualifications for the office, without regard to his political or religious preferences or his place of residence at the time of appointment. No councilmember shall be eligible for the position of manager within two (2) years after the expiration of his latest councilmanic term. (Amended April 13, 1982.)

Sec. 2.08. Temporary manager.

The council may designate a qualified administrative officer of the city to assume the duties and authority of manager during periods of vacancy in the office or during temporary absences or disability of the manager.

Sec. 2.09. Council-manager relationships.

The manager shall be responsible to the council for the administration of all units of the city government under his jurisdiction and for carrying out policies adopted by the council. Except for the purposes of inquiry, authorized by the council, the council and its members shall deal with administrative officers and employees solely through the manager.

Sec. 2.10. Manager's duties and authority.

The manager shall supervise the administrative affairs of the city. He shall be charged with the preservation of the public peace and health, the safety of persons and properties, the enforcement of law, and the development and utilization of the city's resources. He shall keep the council informed of the condition and needs of the city and shall make such reports and recommendations as he may

deem desirable and perform such other duties as may be prescribed by this charter or required of him by ordinance or resolution of the council not inconsistent with this charter. He shall have the right to take part in the discussion of all matters coming before the council but not the right to vote.

Sec. 2.11. Powers of manager as to administrative officers and employees.

The manager shall have the power to appoint and remove, subject to the provisions of this charter, all administrative officers and employees of the City except those appointed by the city attorney; or may, at the manager's discretion, authorize the head of a department or office responsible to the manager to appoint and remove subordinates in such department or office. The manager shall appoint a city clerk, a city treasurer, and such other heads of administrative offices, organization units and activities as the manager may deem necessary. The manager may combine, or personally hold, any such administrative offices herein or otherwise established, or may delegate parts of the responsibilities of the manager's office to designated subordinates.

Sec. 2.12. Treasurer.

The city treasurer shall have such duties as may be prescribed by the manager and shall be responsible for the custody of all moneys and evidences of value belonging to the city, or held in trust by the city. He shall receive and give a receipt for all money due the city including that which may be collected by other city officials or employees. He shall keep, deposit and disburse all city funds in accordance with law. He shall have such powers and duties in regard to the collection, custody, and disbursements of funds belonging to other political subdivisions of the state as may be conferred upon him by law.

Sec. 2.13. Clerk.

The city clerk shall be responsible to and have such duties as may be prescribed by the manager and shall attend and keep a permanent journal of proceedings at all meetings of the council. He shall record and certify all council ordinances and resolutions. He shall be custodian of the city seal and official city records, the custody of which is not otherwise provided for by council, ordinance, or administrative order of the manager. He shall be the chief elections official of the city and shall prescribe and may furnish the forms for all petitions provided for by this charter. He shall have the power to administer oaths of office.

Sec. 2.14. Boards and commissions.

The council shall by ordinance create a planning commission and a library board, and may create such other boards and commissions with respect to specific municipal functions as it may deem necessary. The council shall in each case prescribe the number, manner of appointment, length of term, and duties of members of such boards and commissions who shall serve without compensation but may be reimbursed for necessary expenses incurred in the performance of their official duties. In all cases, except that of the Personnel Board, the council shall provide for an appeal by any interested or aggrieved person from the decision of any board or commission to the council. The council's decision shall be final. All members of such boards and commissions shall be residents of the City at the time of their appointment and during their term of office. Boards and commissions existing at the time this charter is approved by the legislature shall continue to serve until action is taken by the council as provided for in this charter.

Sec. 2.15. Administrative organization.

Within the framework established by this charter, the administrative organization of the city shall be set forth in administrative directives which shall be developed by the manager and be submitted to the council for their approval. These directives shall become effective unless they are modified by the council within thirty (30) days after their submission by the manager, provided that administrative offices may be created by the council only upon recommendation by the manager. The same procedure shall govern amendment of such administrative directives.

Article III. Provisions Regarding Officers and Employees

Sec. 3.01. Eligibility for office.

Only United States citizens may be elected officers of the city. Only registered qualified electors who have been residents of the city or any territory legally annexed thereto at the time nomination papers are issued to the candidate pursuant to the general election law, shall be eligible to an elective city office. (Amended April 13, 1982: Reso. No. 240.)

Sec. 3.02. Oath of office and bond.

Every elective officer, the city manager, and every department head of the city, before assuming

the duties of his office, shall take and subscribe to each constitutional oath of office. Each of these officers of the city shall provide such bonds for faithful performance of their duties as may be required by law. The required oaths and bonds shall be filed with the city clerk; provided that the oath and bond required of the city clerk, if any, shall be filed with the city treasurer. All such bonds shall be corporate surety bonds and the premiums thereon shall be paid by the city.

Sec. 3.03. Surety bonds.

All city officers or employees receiving, disbursing, or responsible for city funds shall be bonded. The council may require any officer or employee to give a bond, conditioned upon the faithful and proper performance of the duties of his office or employment, and approved by and in such amount as the council shall determine. All such bonds shall be corporate surety bonds and the premiums thereon shall be paid by the city. No such bond shall be issued for a term exceeding four (4) years. No bond required by this section shall be renewed upon its expiration or in the event of the reappointment of any officer or employee to a position for which a bond is required, but a new bond shall be furnished. The resignation, removal, or discharge of any officer or employee of the city shall not, nor shall the election or appointment of another to his office or employment, exonerate such officer or employee or his sureties from any liability incurred by him or them. Nothing in this section shall prevent the council from authorizing the furnishing of a blanket position bond to assure the honesty or faithful performance of any of its officers or employees.

Sec. 3.04. Financial interests prohibited.

City officers shall not be financially interested in any contract made by them in their official capacity, or by any body or board of which they are members; nor shall they be purchasers at any sale, or vendors at any purchase, made by them in their official capacity. No officer or employee of the city shall be financially interested in any contract, sale, purchase, lease or transfer of real or personal property to which the city is a party. Any contract, sale or transaction made in violation of this section may be voided at the instance of any party except the officer or employee interested therein. City officers shall disclose any direct personal financial interest in any non-contractual matter coming before any body, board or commission of the city upon which such officer serves. Upon conviction of violating any provision of this section, the person convicted shall forfeit his office or employment and be forever disqualified from holding any office or employment in the city, in addition to any other penalties which may be imposed by law for such violation. (Reso. No. 240.)

Sec. 3.05. Compensation of councilmembers and mayor.

Each councilmember shall be compensated at the rate of one-hundred and fifty dollars ($150) per month. The mayor shall receive in addition to his compensation as a councilmember, fifty dollars ($50) per month, not subject to audit, to defray miscellaneous official ceremonial expenses. Councilmembers may, upon order of the Council, be reimbursed for reasonable and necessary expenses actually incurred in the service of the city. (Amended by general municipal election on November 5, 1985: Res. No. 240.)

Sec. 3.06. Compensation of city manager, city attorney and other officers and employees.

The rates and other terms of compensation of the city manager and the city attorney shall be fixed by the council. Except as otherwise provided in this charter the compensation of all officers and employees of the city shall be fixed by the manager within

the limits of budget appropriations and in accordance with a comprehensive pay plan adopted by the council.

Sec. 3.07. Compensation to be in full payment; fees and commissions not permitted.

The compensation of officers and employees as fixed or otherwise provided for by this charter shall be in full payment for all official services of such officers or employees, and shall be in lieu of any and all fees, commissions, and other compensation which may be receivable by such officers in the performance of the duties of their offices; such fees, commissions, and compensations shall belong to the city, be collected and accounted for by such officers, and be paid over to the treasurer.

Sec. 3.08. Employee welfare benefits.

The council may provide for the retirement of the city's nonelective officers and employees and make available to them any group life, hospital, health or accident insurance, either independently of, or as a supplement to, any retirement or other employee welfare benefits in effect at the time of approval of this charter by the legislature or otherwise provided by law.

Sec. 3.09. Councilmanic vacancies.

The provisions of Section 1770 of the Government Code of the State of California as they now exist or may hereafter be amended shall govern the existence of a vacancy. Any vacancy on the council shall be filled by a majority vote of the remaining councilmen within thirty days after the vacancy occurs. If the council fails, for any reason, to fill such vacancy within said thirty-day period, it shall forthwith call an election for the earliest possible date to fill such vacancy. A person appointed by the council to fill a vacancy shall hold office until the general municipal election and until his successor qualifies. The candidates receiving the most votes shall serve the longer, if any, of the unexpired terms, and in case of ties, the terms shall be fixed by lot. A councilman elected to fill a vacancy shall hold office for the remainder of the unexpired term. No person appointed to fill a vacancy on the council shall be designated as an incumbent, a member of the city council, a city councilman, or any other designation indicating incumbency, for purposes of the next election for such office. (Reso. No. 240.)

Sec. 3.10. Recall.

The holder of any elective office, whether elected or appointed thereto, may be removed therefrom by recall in the manner prescribed by the constitution and general laws of the state.

Sec. 3.11. Separations from office.

All books, documents, and other personal property purchased by the city and all records, documents, and other papers prepared by officials in the discharge of their duties shall be and remain the property of the city. The council shall prescribe by ordinance appropriate procedures with respect to resignations of officers and employees and with respect to the orderly transfer of records, assets, and other effects in the custody of such officers and employees, to their successors or supervisors.

Article IV. Procedure of the City Council.

Sec. 4.01. Regular meetings.

The council shall hold regular meetings on the first Wednesday of each month; provided that, if a regular meeting date falls on a legal holiday, the meeting shall be held the following day. It shall provide by resolution for the time of day and place of its meetings. (Reso. No. 240.)

Sec. 4.02. Special meetings.

Special meetings may be called by the clerk on the written request of the mayor, the manager, or any three councilmen by providing each councilman with twenty-four hours' written notice served personally or left at his usual place of residence. Business transacted at any special meeting shall be limited to the subjects recited in the notice of such meeting unless all councilmen are present, in which case any business which might lawfully come before a regular meeting may be transacted.

Sec. 4.03. Meetings to be public.

All council meetings shall be open to the public and citizens shall have a reasonable opportunity to be heard.

Sec. 4.04. Quorum.

Three councilmembers shall be a quorum for the transaction of business at council meetings except as otherwise provided by this charter. In the absence of a quorum, a lesser number of councilmembers or the City Clerk may adjourn the meeting to a later date.

Sec. 4.05. Attendance and conduct at meetings.

The council may, by vote of not less than two of its members, enforce orderly conduct and compel the attendance of its members and other city officers at its meetings. Any member of the council or other officer of the city who refuses to attend such meetings or conducts himself in a disorderly manner thereat shall be deemed guilty of misconduct in office. Upon council request the manager shall designate a police official or officer to serve as the sergeant-at-arms of the council.

Sec. 4.06. Council rules.

The council shall determine its own rules and order of business subject to the following provisions. There shall be a journal of proceedings or minutes of all council meetings approved by the council and signed by the mayor and clerk and to which the public shall have access at all reasonable times. Within seven (7) days after any regular or special council meeting, a synopsis of the actions taken by the city council at the meeting shall be posted on a bulletin board in the city hall, and within thirty (30) days after any regular or special council meeting, minutes of the meeting shall be prepared by the Clerk and presented to the City Council for its approval.

A vote upon all ordinances and resolutions shall be taken individually by an affirmative and negative vote and entered upon the journal, except that where the vote is unanimous it shall be necessary only to so state. There shall be no standing committees of the council. (Amended April 13, 1982.)

Article V. Legislation.

Sec. 5.01. Form of legislation.

All legislation of the city carrying a penalty for its violation or appropriating money shall be by council ordinance. Each ordinance shall relate to a single subject, which shall be expressed in its title, and upon passage shall be further identified by a number. The enacting clause of all ordinances shall be "The City of Roseville ordains;". Other acts, statements, or decisions of the council reflecting the opinion or will of the council may be adopted by motion or resolution.

Sec. 5.02. Enactment, amendment and repeal of ordinances.

Ordinances may be enacted, amended or repealed by the affirmative vote of not less than three (3) councilmembers, except that when an ordinance is given immediate effect, Section 5.03 of this charter shall govern. Unless by the affirmative vote of not less than three (3) councilmembers, no office shall

be created or abolished, no tax or assessment be imposed, no street, alley or public ground be vacated, no real estate or any interest therein be sold or disposed of, no private property be taken for public use, nor any vote of the council be reconsidered or rescinded nor any money appropriated except as otherwise provided by this charter. Except in the case of ordinances which are declared to be urgency ordinances, no ordinance shall be finally passed by the council until two (2) weeks after the meeting at which the ordinance is introduced. Introduction of an ordinance shall require the affirmative vote of not less than three (3) councilmembers. At least the title and a summary of the ordinance as introduced shall be published in a newspaper of general circulation in the city at least one week before the final passage, either separately or as part of any published proceedings of the council. No ordinance shall be amended by reference to its number and title only, but the section or sections of the ordinance amended shall be re-enacted and shall be either published or posted as provided in Section 5.04 of this charter. An ordinance may be repealed in total by reference to its number and title only and publication of the action may be similarly limited. (Amended by general municipal election on November 5, 1985: amended April 13, 1982: Res. No. 240.)

Sec. 5.03. When ordinances take effect.

The effective date of all ordinances shall be prescribed herein, but the effective date shall not be earlier than thirty (30) days after their enactment nor before publication thereof, except that ordinances relating to an election, relating to street improvement proceedings, relating to taxes or appropriations for the usual and current expenses of the city, or ordinances immediately necessary for the preservation of the public peace, health or safety may be given earlier effect by the affirmative vote of not less than three (3) councilmen if three or four councilmen are present at the meeting, and by the affirmative vote of not less than four (4) councilmen if five councilmen are present at the meeting. In case an ordinance is given effect earlier than thirty (30) days after its enactment, all requirements for publication may be met by posting copies thereof in conspicuous locations in three (3) public places in the city, and the clerk shall, immediately after such posting, enter in the ordinance book under the record of the ordinance a certificate under his hand stating the time and place of such publication by posting, which certificate shall be conclusive evidence of the due publication and posting of the ordinance. (Reso. No. 240.)

Sec. 5.04. Publication of ordinances.

Each ordinance passed by the council shall either be published in full at least once within fourteen (14) days after it is adopted in a newspaper of general circulation in the city, either separately or as part of any published proceedings of the council, or shall within fourteen (14) days after its adoption be posted in full in at least three (3) public places in the city; provided, however, that this section shall not apply to urgency ordinances provided for in Section 5.03 and technical codes provided for in Section 5.05 of this charter. All ordinances and their amendments shall be recorded by the clerk in a book to be called "The Ordinance Book," and it shall be the duty of the mayor and clerk to authenticate such records by their official signatures. (Amended April 10, 1984: amended April 13, 1982.)

Sec. 5.05. Technical codes.

The council may adopt in whole or in part any provision of state law or any detailed technical regulations as a city ordinance or code by citation of such provision of state law or by reference to any recognized standard code and it shall be clearly identified in the ordinance adopting the same as an ordinance of the city. Where any recognized official or unofficial standard code is so adopted in whole or in part, it may be published by filing one copy

of the law or code in the office of the clerk, and the publication of revised or altered sections shall be in the manner prescribed in this charter for the adoption of other ordinances. Any subsequent amendment to or revision of such adopted law or code or detailed technical ordinance may be adopted and published in the same manner. (Amended April 13, 1982.)

Sec. 5.06. Penalties.

The council may provide in any ordinance penalties for its violation. Penalties for the violations of city ordinances shall not exceed those permitted by state law.

Sec. 5.07. Ordinances granting permits to use the streets or other public places.

No exclusive permit or grant of right to occupy or use the streets or public places of the city shall ever be granted.

Sec. 5.08. Compilation and codification of ordinances.

The council shall, within one year after the adoption of this charter, cause any or all properly enacted and unrepealed ordinances of the city to be compiled, consolidated, revised, indexed and arranged, including such restatements and substantive changes as are necessary for clarity, in a comprehensive ordinance code. Such code may be adopted by reference by passage of an ordinance in the same manner as other ordinances of the city. Such code need not be published in the manner required for other ordinances, but not less than one copy thereof shall be filed for use and examination by the public in the office of the city clerk prior to the adoption thereof. Subsequent amendments to the code shall be enacted in the same manner as herein required for the amendment of ordinances generally. (Amended April 13, 1982.)

Sec. 5.09. Initiative and referendum.

Ordinances may be initiated, or the referendum exercised on ordinances passed by council in accordance with the provisions of the general laws of the state as the same now exist or may hereafter be amended applicable to general law cities. (Reso. No. 240.)

Sec. 5.10. Planning, subdivision and zoning ordinances.

The council shall, within six (6) months after the date of approval of this charter by the legislature, enact ordinances providing for the establishment of the planning advisory board, and shall require the manager and the planning advisory board to submit, as soon as practicable, recommendations for changes in existing ordinances which they may deem desirable with respect to planning, subdivision control, zoning, and related matters.

Sec. 5.11. Rules of ordinance construction; severability.

Ordinances passed by the council are declared to be severable. If any portion of an ordinance or the application thereof to any person or circumstances shall be found to be invalid by a court, such invalidity shall not affect the remaining portions or applications of the ordinances which can be given effect without the invalid portion or application, provided that such remaining portions are not determined by the court to be inoperable.

Article VI. Elections.

Sec. 6.01. General and special municipal elections.

General municipal elections for the election of officers and for such other purposes as the council may prescribe, shall be held in the city on the date specified by the Elections Code of the State of California for State-wide general elections (Elections Code Section 2550). Such general municipal elec-

tions shall be conducted in each even-numbered year. All other municipal elections that may be held by authority of this charter, or of general law, or by ordinance, shall be known as special municipal elections. (Amended December 22, 1993: amended April 10, 1984: Reso. No. 240.)

Sec. 6.02. Procedure for holding elections.

Unless otherwise provided by ordinances hereafter enacted, all elections shall be held in accordance with the provisions of the Elections Code of the State of California, as the same now exist or may hereafter be amended, for the holding of elections in cities, insofar as the same are not in conflict with this charter. (Reso. No. 240.)

Article VII. Fiscal Administration.

Sec. 7.01. Fiscal year.

The fiscal year of the city shall begin on the first day of July of each year and end on the thirtieth day of June of the following year.

Sec. 7.02. Budget Procedure.

The manager shall prepare and shall recommend a budget for the ensuing fiscal year to the council on or before the first regular meeting in June. The budget document shall present a comprehensive financial plan for the ensuing fiscal year, including at least the following information:

A. Statements of the bonded and other indebtedness of the city, including the debt redemption and interest requirements, the debt authorized and unissued, and the condition of sinking funds.
B. Detailed estimates of all proposed expenditures for each department and office of the city, showing in addition the expenditures for corresponding items for the last preceding fiscal year, appropriations and anticipated expenditures for the current fiscal year, and reasons for recommended departures from the current expenditure pattern.
C. Detailed estimates of all anticipated revenue sources of the city, with a comparative statement of the amounts received by the city from each of such sources for the last preceding fiscal year and the amounts expected to be received for the current fiscal year.
D. A statement of the estimated balance or deficit, as of the end of the current fiscal year, for all funds.
E. Such other supporting schedules as the council may request or are otherwise required by law.

(Reso. No. 60-3, § 1.)

Sec. 7.03. Budget review; hearings and adoption.

After review of the budget recommended by the manager, the council shall make such revisions as it may deem advisable and shall set the time for holding a public hearing thereon. Not less than ten (10) days prior to said public hearing, the council shall cause to be published a notice thereof in a newspaper of general circulation in the city. Copies of the proposed budget shall be available for public inspection in the office of the clerk for a period of at least ten (10) days prior to said hearing.

Sec. 7.04. Interested citizens to be heard at budget hearing.

At the time advertised, or at any time to which such public hearing shall from time to time be adjourned, the council shall hold a public hearing on the proposed budget, at which interested citizens desiring to be heard shall be given such opportunity.

Sec. 7.05. Revision and final adoption of budget; copy for inspection.

After the conclusion of the public hearing the council shall further consider the proposed budget and make any revisions thereof that it may deem advisable and on or before June 30, it shall adopt the budget with revisions, if any, by the affirmative votes of at least three members. Upon final adop-

tion, the budget shall be in effect for the ensuing fiscal year. A copy thereof, certified by the clerk, shall remain on file in the office of the clerk where it shall be available for inspection.

Sec. 7.06. Appropriations; transfers.

From the effective date of the budget, the several amounts stated therein as proposed expenditures shall be and become appropriated to the several departments, offices and agencies for the respective objects and purposes therein named. All appropriations shall lapse at the end of the fiscal year to the extent that they shall not have been expended or lawfully encumbered, except as provided later in this section and in Sections 7.07 and 7.08.

No money shall be drawn from the city treasury nor shall any obligation for the expenditure of money incurred, except pursuant to the budget appropriation. The council may, by ordinance adopted by the affirmative vote of at least three (3) members, transfer any unencumbered appropriation balance or any portion thereof, from one department, fund or agency to another, or appropriate available revenue not included in the budget. (Reso. No. 240.)

Sec. 7.07. Special funds.

The council may, by ordinance, establish a Cash Basis Revolving Fund for the purpose of placing the payment of the running expenses of the city on a cash basis in any fiscal year prior to the receipt of ad valorem tax revenues. Transfers may be made by the council to said fund from surpluses in other funds or may be appropriated to said fund in the annual budget. Transfers may be made by the council to said fund from surpluses in other funds or may be appropriated to said fund in the annual budget. Transfers may be made by the council from said fund to any other fund or funds with the objective of keeping the city's operations, as nearly as possible, on a cash basis.

7.075. Utility reserve fund.

The Council shall annually set aside from the income of each of its revenue producing public utilities the following amounts and in the following order, to wit: First; An amount fully sufficient for the payment of principal, interest, reserve fund and sinking fund requirements of any revenue bonds or general obligation bonds secured in whole or in part from such utility revenues, the proceeds of which bonds have been applied to the acquisition, construction or completion of such public utilities. Second: An amount sufficient to pay or provide for the payment of maintenance and operation of such public utilities, including a reserve for maintenance and operation.

Thereafter the City Council may set aside an amount, from any surplus moneys remaining, to create and maintain a separate utility reserve fund for each of such public utility reserve fund for each of such public utilities. The amount to be set aside in such separate utility reserve fund shall not exceed a sum which, according to the estimate of the City Manager and approved by the Council, shall be sufficient to meet normal depreciation of such public utility. Such utility reserve funds, if established, shall be used for the replacement, betterment and extension of each of said public utilities and, in addition, may be used for the payment of the principal of and interest on, or retirement prior to maturity of, any revenue bonds of the City or any general obligation bonds secured in whole or in part from such public utility revenues, the proceeds of which bonds have been applied to the acquisition, construction or completion of any such utility, if and to the extent that other funds are not then available for such payment. (Reso. No. 68-10, § 1.)

Sec. 7.08. Capital outlay fund; taxation for public improvement.

The council shall, by ordinance, establish capital outlay funds for specified capital improvement purposes, and such other special funds as it may deem necessary. The council may levy and collect taxes for such purposes, but shall not, in making such a

levy, exceed the maximum tax rate provided for in this charter unless authorized by the affirmative votes of a majority of the electors voting on the proposition at any regular or special election at which such question is submitted. The council may transfer to any such fund any unencumbered surplus funds on hand at any time. Such special funds, created by or supplemented with tax revenues upon which a vote of the electors has been required, shall remain inviolate for the purposes for which they were created unless the use of such funds for some other purpose is authorized by the affirmative vote of a majority of the electors voting thereon on such proposition at a general or special election. Any unexpended and unencumbered surplus remaining in such special funds after the purpose for which the special fund was created has been accomplished may be transferred by the council to its general funds or to other special funds.

Sec. 7.09. Tax system.

The council shall, by ordinance, provide a system for the assessment, levy, and collection of city taxes upon property. The council may, in its discretion, authorize the officers of Placer County to perform any functions for the city relating to the assessment of property, the collection of taxes, the collection of assessments levied for municipal improvements, the sale of property for nonpayment of taxes or special assessments, and the redemption of property from sales.

If the council fails to fix the rate and levy taxes on or before August 31, in any year, the rate for the next preceding fiscal year shall thereupon be automatically adopted and a tax at such rate shall be deemed to have been levied on all taxable property in the city for the current fiscal year.

Sec. 7.10. Limit of levy; purpose of levy; manner of making special assessments.

Exclusive of special levies permitted by this charter, the council shall not levy a property tax in excess of one dollar and thirty cents ($1.30) on each one hundred ($100.00) dollars of the assessed value of taxable property in the city for municipal purposes, unless authorized by the affirmative votes of a majority of the electors voting on a proposition to increase such levy at any election at which the question of such additional levy for municipal purposes is submitted to the electors. The number of years that such additional levy is to be authorized shall be specified in such proposition. There shall be levied and collected at the time and in the same manner as other property taxes for municipal purposes are levied and collected, as additional taxes, if no other provision for payment thereof is made;

a. A tax sufficient to meet all liabilities of the city for principal and interest on all bonds or judgments due and unpaid, or to become due during the ensuing fiscal year; and
b. A tax sufficient to meet all obligations of the city to the employees' retirement system, if any, due and unpaid or to become due during the ensuing fiscal year.

Special assessments for local improvements shall be levied in the manner prescribed by state law.

Sec. 7.11. Power to incur indebtedness.

The bonded indebtedness of the city may not in the aggregate exceed the sum of fifteen (15%) percent of the total assessed valuation of property within the city, with the exception of any indebtedness that has been or may hereafter be incurred for the purposes of acquiring, constructing, extending, replacing, or maintaining municipally owned utilities, for which purposes a further indebtedness may be incurred by the issuance of bonds, subject as to amount only to the provisions of the constitution and laws of the State of California.

The council may, after authorization by the affirmative vote of a majority of the electors voting on the proposition at any regular or special election, issue revenue bonds or any other evidence of indebtedness authorized by state law. Neither such revenue

bonds, nor the interest accruing thereon, shall be, or evidence, indebtedness of the city. Such bonds, and the interest accruing thereon, shall be a charge upon, and payable solely from the revenues derived from the operation of such works, facilities or property, and shall not be a charge, lien, encumbrance, legal or equitable, upon, nor shall any recourse on account thereof be had against any other income, receipts, revenues or funds of the city, and neither the credit nor the taxing power of the city shall be deemed to be pledged to, or charged with, such payment, nor shall the holder of any such bond have any right to compel the exercise of any taxing power of the city.

Sec. 7.12. Advertisement and sale of bonds.

All bonds to be sold by the city shall be advertised for sale at least once in a newspaper of general circulation in the city and in such financial journals as may be deemed necessary to stimulate competitive bidding, at least fifteen (15) days before the bond sale in the manner required by state law. (Amended April 13, 1982.)

Sec. 7.13. Preparation and record of bonds.

Each bond shall contain on its face a statement specifying the purpose for which the same is issued and it shall be unlawful for any officer of the City to use the proceeds thereof for any other purpose, and any officer of the City who shall violate this provision shall be deemed guilty of misconduct of office. All bonds issued by the City shall be signed by such officer or officers as may be designated by the City Council and countersigned by the clerk, under the seal of the City. The manager shall be responsible for establishing and maintaining a complete and detailed record of all bonds issued by the City. Upon the payment of any bond, the same shall be marked "Canceled" or shall be destroyed.

Sec. 7.14. Unissued bonds.

If any bonds are not sold within five (5) years after authorization, such authorization shall, with respect to such bonds, be null and void, and such bonds shall be canceled. (Amended April 13, 1982.)

Sec. 7.15. Budget control.

At the beginning of each quarterly period during the fiscal year, and more often if required by the council, the manager shall submit to the council data showing the relation between the estimated income and expenses and actual income and expenses to date; and if it shall appear that the income is less than anticipated, the council may reduce appropriations, except amounts required for debt and interest charges, to such a degree as may be necessary to keep expenditures within the cash income.

Sec. 7.16. Depository.

The council shall designate a depository or depositories for city funds and shall provide for the regular deposit of all city moneys. The council shall require such security for city deposits as it deems desirable and as is authorized or permitted by law, except that personal surety bonds, of themselves, shall not be deemed proper security.

Sec. 7.17. Repealed.

Sec. 7.18. Actions against the city.

No suit shall be brought on any claim for money or damages against the city or any department, officer or agency thereof until a demand for the same has been presented to the city clerk and rejected in whole or in part.

All claims and the processing thereof shall conform to the laws of the State of California relating to claims against local public entities. (Reso. No. 240.)

Sec. 7.19. Independent audit.

The council shall provide for a running audit of all accounts and books of the city by a firm of certified public accountants who are in no other way connected with the city government. Such accountant or accountants shall be employed at the beginning of the fiscal year for a minimum of two (2) years and a maximum of four (4) years. The accountant or accountants so employed shall, examine the books, records, inventories, and reports of all officers and employee who receive, handle or disburse public funds and of such other officers, employees, departments and agencies of the city government as the council may require. A comprehensive audit shall be made covering each fiscal year; such audit report shall be submitted to the council and shall be open to public inspection. (Amended April 13, 1982).

Sec. 7.20. Purchasing and contracts.

Except as otherwise provided in this charter, the manager shall be responsible for all city purchasing, but he may delegate his responsibility to any subordinate appointed by him.

Sec. 7.21. Bids for contracts; certified checks for bid bonds; performance bonds.

Competitive prices or bids for all purchases and public works and improvements shall be obtained where practicable and the purchase made from, or the contract awarded to, the lowest responsible bidder; provided, that the council may waive the bidding requirements prescribed in this section in the purchase of noncompetitive items or in case of an emergency. Sealed bids shall be asked for in all transactions involving the expenditure of ten thousand dollars ($10,000.00) or more, and in the case of public works, the transaction evidenced by a written contract submitted to and approved by the council. Annually, at the same time the budget ordinance is adopted, the council may in that ordinance establish an inflation or deflation adjustment to the base of $10,000.00 to take economic changes into account. Such adjustment shall be determined utilizing reliable indicators or indices of price increases or decreases. Once adopted, the adjustment shall be added to or subtracted from the base of $10,000.00 so that sealed bids shall be asked for in all transactions involving the expenditure of the adjusted base. The council may reject any and all bids. In all transactions where sealed bids are required, the council may demand a deposit by each bidder in the form of a certified check or bid bond in an amount which shall be specified in the call for bids. The council may require a faithful performance or surety bond of the successful bidder. Calls for sealed bids shall be published in a newspaper of general circulation of the city, not less than five (5) days before the deadline for submission of bids, unless the council declares by resolution that an emergency exists. Detailed purchasing and contract award procedures shall be prescribed by ordinance. (Amended June 18, 1986: Reso. No. 86-108 § 4; amended April 13, 1982: Reso. No. 60-2, § 1.)

Sec. 7.22. Contracts with other public jurisdictions.

The council may, without competitive bidding, enter into a contract with other public jurisdictions established by law, for furnishing goods or services to the city or its inhabitants, or for furnishing goods or services by the city to such public jurisdictions or their inhabitants, or for furnishing goods and services jointly to the inhabitants of the city and the inhabitants of other such public jurisdictions, subject to such restrictions and limitations as may be prescribed by state law.

Sec. 7.23. Determination as to which public works to be performed by city forces or contracts.

The council shall determine which public works or improvement projects are to be performed by city forces and which are to be let by contract in the manner prescribed in this article.

Sec. 7.24. Approval of contracts by attorney.

All contracts shall be approved as to legal form by the attorney.

Article VIII. Personnel Administration.

Sec. 8.01. Personnel board.

A personnel board consisting of five (5) resident and qualified voters shall be appointed by the city council for four-year overlapping terms of office. Vacancies shall be filled by the council by appointment for the unexpired portion of the term. A member of the personnel board shall be removed from office by the city council only for malfeasance, misfeasance or nonfeasance and after charges have been filed and such member has been given a reasonable opportunity to defend himself in an open public hearing before the council. The board shall provide for its own organization and rules for conduct of meetings; provided, that all meetings shall comply with the public meeting requirements of state law. Three (3) members shall constitute a quorum. Members of the board shall serve without pay, but shall be entitled to actual and reasonable expenses incurred outside of the city in the performance of their duties.

No member of the personnel board shall serve more than two (2) consecutive terms.

Incumbent members of the personal board at the time of the approval of this charter amendment shall complete their current terms of office. Reappointment of incumbents to the personnel board shall be for four-year terms in accordance with this section. (Reso. No. 240.)

Sec. 8.02. Powers and duties of the personnel board.

The personnel board shall have the power and shall be required:

a. To advise the council and administrative official son all matters relating to personnel administration in the city service.
b. To review, upon request of the council, all or any part of the compensation plan, including hours of work, holidays, vacation, leave, retirement, overtime and other working conditions which pertain to employees within the classified or unclassified service and present its recommendations to the manager and the council.
c. To review all proposed rules, together with revisions thereto, and submit them to the council with recommendations. A compensation plan and rules and regulations relating to hours of work, holidays, vacation, leave, retirement, overtime and other working conditions shall not be deemed to be personnel rules and shall be governed by Section 8.02(b).
d. To investigate and pass upon the complaint of an employee or group of employees alleging unfair treatment resulting from a management decision, or lack of decision; concerning the interpretation of city rules or regulations governing personnel practices or working conditions within the control of the department head; in which case, the decision of the board, with regard to the interpretation of said rules or regulations, shall be binding upon the appointing authority.
e. To investigate and pass upon the claim of any person that his application for employment or promotion has not been processed and considered pursuant to the provisions of this charter and the personnel rules governing the classified service; in which case, the decision of the board shall be binding on the appointing authority.
f. To hear appeals from any action of suspension, reduction in rank or pay, or discharge of any employee in the classified service and to report its findings and decisions in writing to the appointing authority; such findings and decisions shall be final and binding on the appointing authority.
g. To subpoena witnesses and administer oaths.

(Reso. No. 240.)

Sec. 8.03. Personnel director.

The personnel director shall be appointed by the manager. He shall be responsible for directing the personnel program of the city in accordance with the provisions of this charter and ordinances supplemental thereto. (4-11-72.)

Sec. 8.04. Personnel rules.

It is the intention of this article to provide for a merit system of employment in the city service. The council shall enact by ordinance a set of rules governing classified municipal employment which shall, among other things, provide:

a. For the classification of all positions in the classified service.
b. For open, free and competitive examinations to test the relative fitness of applicants for such positions, and or reasonable publication and public advertisement of all examinations and for promotion based upon competitive examinations or records of efficiency, character, conduct and seniority, or upon examination and record.
c. For the creation of eligible lists upon which shall be entered the names of successful candidates in the order of their standing on the examination and for the certification of those on the appropriate list to the manager or department heads for appointment to fill vacancies and for the manner in which appointments shall be made from such list.
d. For the period of time in which eligible lists shall continue in effect.
e. For a period of probation not to exceed one (1) year, both on original and promotional appointments, before the appointment is made permanent, during which time, in the case of an original appointment, the probationer may be discharged or, in the case of a promotion, returned to a position of his former classification by the head of the department of office in which employed. Provided, however, that no period of absence from work, leave, or limited duty assignment shall be credited toward completion of the probationary period, nor shall any overtime or additional work beyond normal working hours be credited towards completion of the probationary period.
f. For the rejection of candidates or eligibles who fail to comply with a bona fide occupational qualification in regard to age, sex and physical handicap or condition; or who have been convicted of a crime which adversely affects their qualification for the position applied for; or who have attempted any deception or fraud in connection with an examination for employment by the city.
g. For the employment without examination of provisional employees, in cases of emergency pending appointment from an eligible list, but no such provisional employment shall continue for more than thirty (30) days after the establishment of an eligible list for the position held, and in no event for more than ninety (90) days.
h. For transfer from one position to a similar position in the same class and grade, for reinstatement after resignation, layoff or reduction in class or grade.
i. For the discipline of employees by suspension, demotion, discharge or other actions not inconsistent with the provisions of this article.
j. For the certification to the chief finance officer of the city of names and classifications of all persons legally employed in the city service, without which certifications this officer shall not authorize the issuance of salary paychecks.

(4-11-72.)

Sec. 8.05. Special provisions relating to examinations.

All examinations shall be impartial and shall deal with the duties and requirements of the positions to be filled. They may be oral, written or based on observed performance or educational and experience record, or any combination thereof. Unskilled laborers may be appointed in the order of priority of

application after passing such tests of fitness as the personnel director may prescribe. The personnel director may develop an apprenticeship program for the recruitment and promotion of employees in the skilled trades. (4-11-72.)

Sec. 8.06. Special services.

The council, upon recommendation of the manager or the personnel board, may contract with other political subdivisions of the state, or with any state department, or with an experienced private agency for the furnishing of personnel, fiscal or other consultative services. (4-11-72.)

Sec. 8.07. Classified and unclassified services.

The employments in the city service are hereby divided into the classified and unclassified service. The unclassified service shall consist of (a) officers elected by the people and persons appointed to fill vacancies in elective offices; (b) the members of boards and commissions as provided by this charter; (c) the manager, assistant manager, attorney, deputy or assistant attorneys, and the heads of one or more departments as provided for in this charter; (d) persons employed in a professional or scientific capacity to conduct or complete a special inquiry, investigation, examination or project, not to exceed thirty-six (36) months full-time employment or equivalent without a break of at least three (3) months; (e) persons employed for a temporary, seasonal or special purpose for a period not to exceed nine (9) months full-time employment or the equivalent thereof in any twelve (12) month period without a break in employment of at least three (3) months; (f) reserve firefighters and reserve police officers and (g) disaster service workers whether recruited or conscripted. The classified service shall comprise all positions not specifically included in the unclassified service. (4-11-72.)

Sec. 8.08. Repealed.

Secs. 8.09 to 8.11.

Repealed by Referendum April 11, 1972.

Article IX. Franchises.

Sec. 9.01. When franchises are required.

No person, firm or corporation shall exercise any franchise right or privilege in the city for furnishing its inhabitants with transportation, communication, terminal facilities, water, light, heat, gas, power, or any other public utility or service, except insofar as he or it may be entitled to do so by direct authority to the Constitution of the State of California or of the United States, unless he or it shall have obtained a grant therefor in accordance with the provisions of this article of this charter and in accordance with the procedure prescribed by ordinance. Nothing contained in this article shall be construed to invalidate any lawful franchise heretofore granted or to necessitate the obtaining of a new franchise for a use which a franchise holder shall have in a valid unexpired franchise. Nothing contained in this article shall be construed to apply to the city, or any department thereof, when furnishing any public utility or service.

Sec. 9.02. Certain carriers and utilities exempt.

Nothing in this article shall be construed as applying to or requiring the carriers of freight or passengers not operating over a fixed route, or other public utilities or services not specifically described in this article, to obtain a franchise to operate within the city unless required so to do by ordinance of the City of Roseville.

Sec. 9.03. Operation without franchise.

The exercise by any person, firm, or corporation of any privilege for which a franchise is required, without procuring such franchise, shall be a misdemeanor and each day that such condition continues to exist shall constitute a separate violation.

Sec. 9.04. Authority and procedure in granting franchises.

The council shall, by ordinance, prescribe the terms and conditions under which franchises

will be granted, subject to the provisions of this charter, and the detailed procedure for granting franchises. Such ordinance shall provide:

a. For the publication of notice of franchise applications;
b. For protests against the granting of such franchises;
c. For the holding of public hearings on such applications;
d. For the publication of the ordinance granting the franchise in the manner provided for in Section 5.07 of this charter.

Sec. 9.05. Authorization by ordinance.

The council is empowered to grant by ordinance to any person, firm, or legally authorized corporation, whether operating under an existing franchise or not, a franchise to use the public streets, ways, alleys and places, as the same now or may hereafter exist, for the purposes described in Section 9.01 of this charter and for such other purposes as are permitted by state law. The said ordinance shall prescribe the terms and conditions under which the franchise will be granted in accordance with the applicable provisions of this charter and any ordinances adopted pursuant thereto, and may in such franchise impose such other and additional terms and conditions not in conflict therewith as in the judgment of the council are in the public interest or as the people, by initiative, indicate they desire to have so imposed.

Sec. 9.06. Reservation of privilege; bids.

No franchise shall be granted without reserving to the city adequate consideration for the privilege conferred.

The council may grant a franchise by ordinance or may, in its discretion, advertise for bids for basis, not in conflict with the provisions of this charter to be set out in the advertisement for bids and notice of sale; provided, that no bidding shall be had or required upon any renewal of a franchise, surrender of existing franchise or parts thereof, or in settlement of litigation between the grantee and the city.

Sec. 9.07. Terms of franchises.

Every franchise shall be either for a fixed term not to exceed thirty (30) years, or for an indeterminate period. If for a fixed term, the franchise shall state the term for which it is granted. If for an indeterminate period, it shall set forth the terms and conditions under which it may be terminated; provided that each such franchise shall vest in the city the right, at any time upon six (6) months' notice in writing, to acquire and possess the property of the grantee.

No exclusive franchise shall ever be granted.

Sec. 9.08. Right of acquisition of property not affected.

No franchise grant shall in any way or to any extent impair or affect the right of the city to acquire the property of the grantee thereof either by purchase or through the exercise of the right of eminent domain, and nothing herein contained shall be construed to contract away or to modify or to abridge either for a term or in perpetuity the city's right of eminent domain with respect to any public utility. Every franchise grant shall reserve to the city the right to purchase the property of such utility upon six (6) months' written notice, either at an agreed price or a price to be determined in a manner to be prescribed in the grant, or in the manner prescribed by the procedural ordinance hereinabove mentioned. In fixing the price to be paid by the city for any utility, no allowance shall be made for franchise value (other than the actual amount paid to the city at the time of the franchise acquisition), good will, going concern, earning power, or increased value of right-of-way.

Sec. 9.09. Provisions of franchise.

Every franchise shall provide all regulations necessary or proper to secure in the most ample manner the safety, accommodation, comfort, and convenience of the public. To this end, every franchise shall provide for the establishment of reasonable standards of service and quality of product and require proper and adequate extensions of plant or service and the maintenance thereof at the highest practical standard of efficiency.

Sec. 9.10. Right of city to change grade, location or use of streets, etc.

Every franchise shall provide that the city shall, upon reasonable notice, have the right at

any time, without liability or obligation to the grantee, to change the grade, location, alignment or use of any street, way, alley or place in, upon or over which the grantee has installed or operates facilities, equipment, lines or other devices.

Sec. 9.11. Lease, assignment or alienation.

No franchise heretofore or hereafter granted by the city shall ever be leased, assigned, or otherwise alienated without the express consent of the city by ordinance, and no dealing with the lessee or assignee on the part of the city to require the performance of any act or payment of any compensation by the lessee or assignee shall be deemed to operate as such consent.

Sec. 9.12. Right of revocation.

Every franchise shall reserve to the city the right to revoke the franchise at any time for nonuse, failure to begin construction within the prescribed time, or other violations of the terms of the franchise.

Sec. 9.13. Rates, fares and charges.

Every franchise shall provide for the establishment and adjustment of rates, fares, and charges for service, where not otherwise prohibited by state law.

Article X. Municipally-Owned Utilities.

Sec. 10.01. General powers respecting utilities.

The city shall possess all the powers granted to cities by state law to construct, condemn and purchase, purchase, acquire, add to, maintain, and operate, either within or outside its corporate limits, including, but not by way of limitation, public utilities for supplying water, light, heat, power, gas, transportation, sewage and refuse collections, treatment and disposal services, or any of them, to the municipality and the inhabitants thereof; and also to sell and deliver any of the utility services above mentioned outside its corporate limits, to the extent permitted by state law.

Sec. 10.02. Rates; collection of utility charges.

The council shall have the power to classify and to fix and, from time to time to revise such rates and charges as it may deem advisable for supplying the inhabitants of the city and others with such utility services as the city may provide. The council shall, by ordinance, provide for the collection of all public utility charges made by the city, and the attendant exercise, on behalf of the city, of all actions or remedies permitted by law.

Sec. 10.03. Disposal of utility plants and property.

The city shall not sell, exchange, lease, or in any way alienate or dispose of the property, easements, or other equipment, privileges, or assets which are essential parts of any utility which it may acquire, unless and except the proposition for such purpose shall first have been submitted and approved by a majority vote of the electors voting thereon at a general or special municipal election. All contracts, negotiations, licenses, grants, leases, or other forms of transfer in violation of this provision shall be void and of no effect as against the city. The provisions of this section shall not, however, be interpreted to preclude the sale, exchange, or other disposal to the advantage of the city, of parts of a utility's property and assets which are not essential to continued effective utility service and the disposal of which will not prejudice municipal interests.

Article XI. Elementary Schools.

Sec. 11.01. School district.

The elementary public school system of the city existing at the time of the approval of this charter by the legislature, or as its boundaries may be changed in the future, shall remain and continue to be known as the Roseville City School District.

Sec. 11.02. Board of education.

The electors of the school district shall elect a board of education of five (5) members, at

large, for terms of office provided in the California Education Code. Members of the board of education in office at the time of approval of this section shall continue to hold office and discharge their duties for the balance of the term for which they were elected, or until their successors are elected and qualified. Eligibility to hold office, the filling of vacancies on the board and other rules of procedure shall be in accordance with the provisions of the Education Code of the State of California as it now exists or as it may hereafter be amended.

Sec. 11.03. Powers and duties.

The control of the Roseville City School District shall be vested in the board of education which shall have all the powers granted to such school districts by the Constitution, the Education Code, and the general laws of the State of California as they now exist or as they may hereafter be amended.

Article XII. Miscellaneous.

Sec. 12.01. Construction of the charter.

The word "city" wherever it occurs in this charter, means the City of Roseville. The word "council" wherever it occurs in this charter, means the city council of the City of Roseville. The words "manager," "attorney," "clerk," "treasurer," and the "boards" and "commissions" mentioned in this charter refer to the respective city officials of the City of Roseville.

Sec. 12.02. Section headings.

The section headings used in this charter are for convenience only and shall not be considered part of this charter.

Sec. 12.03. Violations.

The violation of any provisions of this charter shall unless otherwise specifically provided herein, be deemed a misdemeanor and be punishable upon conviction by a fine of not exceeding one thousand dollars or by imprisonment for a term of not exceeding one (1) year or by both such fine and imprisonment.

Sec. 12.04. Effect of illegality of any part of charter.

If any section, subsection, sentence, clause or phrase of this charter is for any reason held to be unconstitutional or void, such decision shall not affect the validity of the remaining separable portions of this charter. The people of the City of Roseville hereby declare that they would have adopted this charter and each section, subsection, sentence, clause or phrase thereof irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional or void.

Sec. 12.05. Effective date of charter.

This charter shall take effect from the time of approval of the same by the state legislature.

Editor's note. – The Charter was approved by the state legislature on January 5, 1955.

Sec. 12.06. Municipal hospitals.

The City shall have the authority to acquire, own, and operate municipal hospitals for the purpose of providing health care to its citizens and, to the extent permitted by law, to persons residing outside of its corporate limits. The City may enter into such leases or agreements for operation of the municipal hospitals as the Council deems appropriate. Provided however, that the City shall not sell or dispose of the property easements, or assets of any such municipal hospital which it may acquire, unless and except that a proposition for such purpose shall first have been submitted to and approved by a majority vote of the electors voting thereon at a general or special election. The provisions of this section shall not be interpreted to preclude the sale of parts of a hospital's property and assets which are not essential to continued effective hospital service and the disposal of which will not prejudice municipal interests. (Added by general municipal election on November 5, 1985.)

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Exhibit D

ROSEVILLE MUNICIPAL CODE SECTIONS

Chapter 14.24 ELECTRICAL ENERGY

14.24.010 Definitions.

Unless the context otherwise dictates, the following words and phrases shall have the meaning hereinafter set forth:

A. "The director" means the director of the City electric utility of the city, or his/her designee.

B. "KW" means kilowatt.

C. "KWH" means kilowatt hour.

D. "KVA" means kilovolt-ampere.

E. "The system" means the network of electrical equipment owned and operated by the city used to deliver electrical energy to various locations.

F. "Electric service" means any of the services available to City electric utility customers including, but not limited to, distribution, transmission and generation service.

G. Words and phrases having technical meanings, commonly understood by those persons familiar with the sale, distribution and handling of electrical energy shall have the same meanings as are generally given such words and phrases by such persons.

(Ord. 3430 § 3 (part), 1999: Ord. 3381 § 1 (part), 1999: Ord. 1299 § 1 (part), 1975: prior code § 8.30.)

14.24.020 Rate classification.

Rate classifications for sale of electrical energy are as follows:

A. The "Residential Rate" is the rate charged to persons in single-family and multiple-family dwellings for noncommercial use.

B. The "General Service Rates" are the rates charged to persons engaged in all nonresidential activities, whether commercial or noncommercial.

C. The "Outdoor Lighting Rate" is the rate charged for providing city-owned and maintained outdoor lighting service, other than the lighting of public streets.

D. The "Street Lighting Rate" is the rate charged for providing electrical energy for city-owned lights for lighting public streets.

E. The "Traffic Signal Rate" is the rate charged for electrical energy for all city-owned traffic signals and associated equipment.

(Ord. 2710 § 1 (part), 1993: Ord. 2411 § 1 (part), 1991: Ord. 1620 § 1, 1982; Ord. 1299 § 1 (part), 1975: prior code § 8.31.)

14.24.021 On-peak and off-peak periods.

On-peak periods are the hours from 6:00 a.m. to 10:00 p.m., Monday through Saturday. Off-peak

periods are the hours from 10:00 p.m. to 6:00 a.m. on Monday through Saturday and Sunday. (Ord. 3381 § 1 (part), 1999: Ord. 2710 § 1 (part), 1993: Ord. 2577 § 1 (part), 1992: Ord. 2411 § 2 (part), 1991.)

14.24.030 Combining charges.

A. Metered charges may be combined for billing purposes.

B. Residential customers may request a single bill for more than one service account. The combined bill shall equal the sum of all charges applicable to the individual accounts.

C. General service customers may request a single bill for more than one service account. The combined bill shall equal the sum of all charges applicable to the individual accounts under each individual account's relevant rate class.

(Ord. 3381 § 1 (part), 1999: Ord. 1299 § 1 (part), 1975; prior code § 8.32.)

14.24.040 Residential rates.

Effective July 5, 2006, the residential rate on billings shall be as follows:

A. Residential Rate. The residential rate on billings shall be as follows:

1. Basic Service Charge: A basic service charge of $6.50 per meter, per month.
2. Energy Charge:
   a. Up to 500 kWh $.0809 per kWh
   b. Greater than
      500 kWh $.1080 per kWh

Effective July 1, 2007, the residential rate on billings shall be as follows:

A. Residential Rate: The residential rate on billings shall be as follows:

1. Basic Service Charge: A basic service charge of $8.00 per meter, per month.
2. Energy Charge:
   a. Up to 500 KWh $.0841 per kWh
   b. Greater than
      500 kWh $.1123 per kWh

(Ord. 4397 § 1 (part), 2006: Ord. 4181 § 1 (part), 2005: Ord. 4007 § 2 (part), 2003: Ord. 3749 § 1, 2001; Ord. 3731 § 1, 2001; Ord. 3702 § 1 (part), 2001: Ord. 3637 § 1 (part): Ord. 3588 § 1 (part), 2000: Ord. 3552 § 1 (part), 2000: Ord. 3381 § 1 (part), 1999: Ord. 3091 § 1, 1997: Ord. 3075 § 1, 1997: Ord. 2995 § 1, 1996: Ord. 2710 § 1 (part), 1993: Ord. 2577 § 1 (part), 1992: Ord. 2411 § 1 (part), 1991: Ord. 2296 § 1 (part), 1990: Ord. 1984 § 1 (part), 1986: Ord. 1911 § 1 (part), 1985: Ord. 1813 § 1, 1984: Ord. 1764 § 1, 1984: Ord. 1707 § 1, 1983: Ord. 1655 § 1 (part), 1982: Ord. 1507 § 1, 1980: Ord. 1408 § 1, 1978: Ord. 1338 § 1, 1976: Ord. 1229 § 1 (part), 1975: prior code § 8.34.)

14.24.050 General service rates.

Effective July 5, 2006, the general service rates on monthly billings shall be as follows:

A. Small General Service Customers (GS-1). For customers whose monthly energy usage is less than 8000 kWh and whose demand, in the judgment of the Director, is not likely to exceed twenty (20) kW per month for six months during the year, the rate on monthly billings will be as follows:

1. Basic Service Charge: A basic service charge of $6.50 per meter, per month.
2. Energy Charge: An energy charge of $0.0869 per kWh.

B. Medium General Service Customers (GS-2). For customers whose monthly energy usage or demand exceeds the limits specified for Small General Service customers, but whose demand is less than the limits specified for Large General Service Customers, the rate on monthly billings will be as follows:

1. Basic Service Charge: A basic service charge of $36.00 per meter, per month.
2. Demand Service Charge: A demand service charge of $2.59 per kW.
3. Energy Charge: An energy charge of $.0824 per kWh.

C. Large General Service Customers (GS-3). For customers whose monthly demand equals or exceeds five hundred (500) kW per month, the rate on monthly billings will be as follows:

1. Basic Service Charge: A basic service charge of $150.00 per meter, per month.
2. Demand Service Charge: A demand service charge of $3.79 per kW.
3. Energy Charge: An energy charge of $.0657 per kWh.

Effective July 1, 2007, general service rates on monthly billings shall be as follows:

A. Small General Service Customers (GS-1): For customers whose monthly energy usage is less than 8000 kWh and whose demand, in the judgment of the Director, is not likely to exceed twenty (20) kW per month for six months during the year, the rate on monthly billings will be as follows:

1. Basic Service Charge: A basic service charge of $6.50 per meter, per month.
2. Energy Charge: An energy charge of $0.0924 per kWh.

B. Medium General Service Customers (GS-2). For customers whose monthly energy usage or demand exceeds the limits specified for Small General Service customers, but whose demand is less than the limits specified for Large General Service Customers, the rate on monthly billings will be as follows:

1. Basic Service Charge: A basic service charge of $36.00 per meter, per month.
2. Demand Service Charge: A demand service charge of $3.05 per kW.
3. Energy Charge: An energy charge of $.0865 per kWh.

C. Large General Service Customers (GS-3). For customers whose monthly demand equals or exceeds five hundred (500) kW per month, the rate on monthly billings will be as follows:

1. Basic Service Charge: A basic service charge of $150.00 per meter, per month.
2. Demand Service Charge: A demand service charge of $4.39 per kW.
3. Energy Charge: An energy charge of $.0690 per kWh.

D. Minimum Charge. The minimum charge shall be the basic service charge, plus fifty percent (50%) of the demand charge for the higher of the highest demand occurring the previous twelve (12) months ending with the current month or the contract demand, if applicable.

E. Determination of Demand. Whenever monthly uses of energy exceed eight thousand (8,000) kWh for six (6) consecutive months, or whenever, in the judgment of the Director, the demand is likely to exceed twenty (20) kW, a demand meter will be installed. The demand charge for any month will then be

calculated from the maximum fifteen (15) minute kW delivery during the month.

F. Primary Service. A customer whose demand exceeds five hundred (500) kW in any month and who receives such service at twelve thousand (12,000) volts or higher under delivery arrangements approved by the Director, shall receive a discount of two percent (2%) of the energy and demand charges.

G. Power Factor Adjustment.

1. For any customer whose demand exceeds five hundred (500) kW or who will, in the judgment of the Director, exceed five hundred (500) kW, the Director may determine the ratio between kilowatt and apparent kilovolt-ampere demand by means of installed instruments or by periodic tests. If determined by periodic testing, the ratio determined by such testing will remain in effect until the Director determines that further periodic testing is required.

2. In any month during which the ratio of the maximum fifteen (15) minute kilowatt (kW) demand and the apparent power demand (kVA) (power factor) of a customer is less than ninety-five percent (95%), an additional charge of twenty-five cents ($0.25) will be made for each reactive kilovolt-ampere (kVAr) exceeding the kVAr corresponding to the kW demand at ninety-five percent (95%) power factor.

H. Auxiliary or Standby Rate Service.

1. Applicability. This service is applicable to any general service customer, who operates, in whole or in part, customer-owned, generating facilities on his premises as defined in Roseville Electric Rule 21, to supply all or part of his power requirements, and where:

a. Customer owned generating facilities may not exceed 100 KW based upon the manufacturer's nameplate rating of the generating facilities.

b. Per Rule 21 customer owned generating facilities connects to the City's electrical distribution system, and customer guarantees not to operate his generating facilities in parallel with the City's electrical system except upon approval of the Director.

c. The Utility must stand ready to provide backup service to replace the generator(s). In accordance with state law, this rate service does not apply to solar, wind or solar/wind hybrid customer generation.

An Interconnection Agreement between the City and Customer-Generator is required for service under this rate, when the customer-owned generating facilities are interconnected with the City's electrical system.

2. Rates. The standby rate on billing shall be as follows:

Standby Service Charge ($/KW of

"Rated Capacity" per month)

Secondary Voltage	$5.07
Primary Voltage	$3.35

"Rated Capacity" is a fixed kilowatts value determined by the manufacturer's rating of the generator unit. In addition to the standby service charge, the City will continue to bill for all applicable charges under the appropriate rate schedule, including, but not limited to, basic service, energy and demand charges.

I. High Load Factor. Large Commercial Rate Customers with annual load factors of 80% or higher shall receive a discount of three and one-half percent (3.5%) of the energy and demand charges.

J. Demand/kWh Criteria. General Service Rate Customers shall be periodically evaluated for compliance with rate class monthly demand and/or kWh criteria. If the monthly demand and/or kWh criteria are not

satisfied, the Customer may be transferred to the appropriate General Service Rate effective with the next available billing cycle. Exceptions are at the discretion of the Utility Director or by a customized customer contract (if applicable). Compliance with monthly demand/kWh criteria shall be viewed as being satisfied if customer consumption during six (6) months out of the last twelve (12) months is at the prescribed level.

K. Advanced metering service charge. The advanced metering service charge is required for all general service customers whose maximum annual demand is equal to or greater than 250 KW, or who have access to the City's online energy profiler system. Customers whose demand meets this requirement will receive a special load profile meter, and the ability to remotely access usage data. The City will charge a monthly service fee of $30.00 to cover maintenance, software support and related expenses.

(Ord. 4397 § 1 (part), 2006: Ord. 4181 § 1 (part), 2005: Ord. 4007 § 2 (part), 2003: Ord. 3875 § 1, 2002: Ord. 3749 § 2, 2001; Ord. 3731, §§ 2-10, 2001); Ord. 3731 § 2, 2001; Ord. 3702 § 1 (part), 2001; Ord. 3637 § 1 (part), 2001: Ord. 3588 § 1 (part), 2000: Ord. 3552 § 11 (part), 2000: Ord. 3381 § 1 (part), 1999: Ord. 3214 § 1, 1998; Ord. 3144 § 1, 1997; Ord. 3121 § 1, 1997; Ord. 3091 § 2, 1997: Ord. 2991 § 1, 1996: Ord. 2847 § 1, 1995: Ord. 2710 § 1 (part), 1993: Ord. 2577 § 1 (part), 1992: Ord. 2411 § 1 (part), 1991: Ord. 2294 § 1 (part), 1990: Ord. 1984 § 1 (part), 1986: Ord. 1911 § 1 (part), 1985: Ord. 1813 § 2, 1984: Ord. 1764 § 2, 1984: Ord. 1707 § 2, 1983: Ord. 1655 § 1 (part), 1982: Ord. 1507 § 2, 1980: Ord. 1408 § 2, 1978: Ord. 1338 § 2, 1976: Ord. 1229 § 1 (part), 1975: prior code § 8.35.)

14.24.051 Customer owned solar and wind electric generation rates.

A. Net Metering Rate. For Customer Owned Solar, Wind, and/or Solar/Wind Hybrid Electric Generation:

1. Net Metering is available for electric customers who own and maintain solar, wind, and/or solar/wind hybrid electric generation systems, where the generating system is less than or equal to 10kW, as defined in Roseville Electric's Rule 21.

2. The solar and/or wind electric generating system must be located on the customer's premises, interconnected on the customer's side of the meter of record, operated in parallel with the City's electric utility system, and intended to offset part of but no more than 100% of the customer's peak demand.

3. The Net Metering Solar, Wind, and/or Solar/Wind Hybrid Electric Generation rate on billings shall be as follows:

a. For billing periods in which the customer's kWh usage is higher than the customer owned generation output (customer is a Net User) the applicable standard bundled electric rates shall apply for all net energy provided by the City's electric utility including the Basic Service Charge and other nonbypassable charges.

b. For billing periods when the customer's kWh usage is lower than the customer owned generation kWh output (customer is a Net Producer), the Basic Service Charge and all other applicable nonbypassable charges will

apply. The customer shall receive a dollar credit for the net customer owned generation kWh output delivered to the City valued at the applicable bundled kWh-based electric rate.

4. Residential and small commercial customers have the option of accumulating net energy supplied by the City's electric utility and net customer owned generation output on an annual basis. During the annualized period, starting with the month of interconnection of the customer's generating system with the City's electrical system, the monthly bills will show accumulated

charges for the annualized period and the net energy balances accumulated. At the end of the annual period the customer will pay for the net energy supplied by the City's electric utility at the applicable bundled rate including the monthly Basic Service Charges and all nonbypassable charges. If the annualized accumulation results in net customer owned generation output, no credit will be paid to the customer.

5. The Customer must enter into an Interconnection Agreement with the City and receive approval to parallel with the City's electric distribution grid to receive service under this rate.

6. The customer must comply with conditions and terms set forth by the City and Roseville Electric Rule 21 requirements for safe and efficient interconnection with the City's electrical system.

B. Co-Energy Metering Rate. For Customer Owned Solar, Wind, and/or Solar/Wind Hybrid Electric Generation:

1. Co-Energy metering shall be utilized on customer owned and maintained solar, wind, and/or solar/wind electric generation systems where Customer owned generation system has a rated capacity greater than 10kW, but less than or equal to 1.0 megawatts, as defined in Roseville Electric's Rule 21.

2. Co-Energy Metering:

a. The solar, wind, and/or solar/wind hybrid electric generating system must be (1) located on the customer's premises, (2) feed directly into City's electric distribution system, (3) utilize two meters - customer revenue meter of record and a separate generation meter, (4) system must be interconnected on the "Utility" side of the meter of record with a separate meter reading system production, (5) associated with a specific customer electric meter of record, (6) must be operated in parallel with the City's electric utility system, and (7) must be intended to offset part or all of the customer's peak electrical demand requirements (or estimated peak demand if it is new construction).

3. If the customer owned electric generation system (1) has been actively delivering electricity to the City distribution grid, and (2) the customer has a current interconnection agreement with the City for the designated system, then the customer will receive an "adjusted" billing from the City for the billing period. The Co-Energy Metering "adjusted" billing calculation shall be as follows: the "gross monthly bill as determined through the electric revenue meter of record" minus the "Renewable Energy Generation Credit Valuation adjustment as determined by the generation production meter" equals either the customer amount due or the customer credit for the billing period, where:

a. "Gross Monthly Bill": Per City tariff, for every billing period, the customer's electric meter of record shall be used to record the customer's total kWh used. The customer's total "gross" bill will be based upon the kWh used at the applicable tariff rate plus all other nonbypassable monthly charges and is the same as the standard tariff billing calculation, prior to any Co-Energy adjustment.

b. "Renewable Energy Generation Credit Valuation Adjustment": Customer owned system kWh production for the billing period times the Renewable Energy Generation Credit Valuation equals the "Renewable Energy Generation Credit Valuation Adjustment."

4. Effective July 5, 2006, the Renewable Energy Generation Credit Valuation is $0.05859 per kWh. Effective July 1, 2007, the Renewable Energy Generation Credit Valuation is $0.0621 per kWh.

5. Co-energy metering will be administered on an annualized basis. During the annualized period, starting with the month of interconnection of the customer's generating system with the City's electrical system, all charges are due at the time of billing. Electric generation production excess

may result in a dollar credit carrying forward to the next billing period. The monthly bills will show accumulated dollar credits in this instance. If a credit accumulation results in a net customer owned generation credit at the end of the annualized year, unused dollar credits will not be carried into the new annualized year and no payment will be paid to the customer. Credits have no cash value.

6. The Customer must enter into an Interconnection Agreement with the City and receive approval to parallel with the City's electric distribution grid to receive service under this rate.

7. The customer must comply with conditions and terms set forth by the City and Roseville Electric's Rule 21 for Generation Facility Interconnection requirements.

(Ord. 4397 § 1 (part), 2006: Ord. 4181 § 2, 2005.)

14.24.055 Outdoor, street lighting and traffic signal rates.

A. Outdoor Lighting Rate: For all outdoor lighting customers, the monthly billing will be as follows:

1. Energy charge. An energy charge of $0.0949 per kWh consumption.
2. Consumption. Consumption shall be determined based on thirty (30) days per month, twelve (12) hours per day operation, and equipment line wattage based on standard estimate of equipment and manufacturers data, as determined by the Director.
3. Service furnished under this rate may be discontinued at any location where the City's overhead facilities are relocated, converted to underground, or the space on the pole utilized by the light is needed for other facilities.
4. The customer is responsible for any damage to City facilities due to vandalism or any other cause, other than the sole active negligence of the City. Failure to reimburse the City for necessary repair work will result in discontinuance of service.

B. Street Lighting Rate: For all public street lighting, the monthly billing will be as follows:

1. Energy charge. An energy charge of $0.0320 per kWh consumption.
2. Consumption. Consumption shall be determined based on thirty (30) days per month, twelve (12) hours per day operation, and equipment line wattage based on standard estimates of equipment and manufacturers data, as determined by the Director.

C. Traffic Signal Rate: For all city-owned traffic signal electric service the monthly billing will be as follows:

1. Customer charge. A customer charge of twenty-two dollars and sixty-six cents ($22.66) per meter, per month.
2. Energy charge. An energy charge of $0.0440 per kWh of consumption.

(Ord. 2710 § 1 (part), 1993: Ord. 2577 § 1 (part), 1992: Ord. 2411 § 1 (part), 1991: Ord. 2296 § 1 (part), 1990: Ord. 1984 § 1 (part), 1986: Ord. 1911 § 1 (part), 1985: Ord. 1813 § 3, 1984: Ord. 1620 § 2, 1982.)

14.24.060 Service charge outside city limits.

Charge for electrical energy delivered outside the corporate limits of the city may include a surcharge on

the applicable residential or general service charge. (Ord. 3430 § 3 (part), 1999: Ord. 1299 § 1 (part), 1975: prior code § 8.36.)

14.24.070 Description of service.

Subject to the conditions listed below, single-phase or three-phase service will be supplied as required by the customer in accordance with the appropriate rates.

A. Voltage supply will be designated by the director.

B. Single-phase service will not be supplied to customers whose meter demand exceeds one hundred (100) KVA.

C. Three-phase service will not be supplied to motor loads of less than seven and one-half (7-1/2) horsepower or other three-phase devices of less than seven and one-half (7-1/2) horsepower, except where three-phase secondary facilities are available at the service location of the customer, or where the customer for three-phase service contributes the net estimated installed cost of such facilities (exclusive of meter and service costs), or such part of the net estimated installed cost as the director may consider equitable, considering all of the circumstances.

D. Alternating current service of approximately sixty-cycle frequency will be supplied at the following nominal voltages:

Secondary Voltages		Primary Voltages
Single Phase	Three Phase	Three Phase
	208Y/120	2400Δ (1)
120/240	140Δ /120	4160Δ (1)
	480Δ (1)	4160Y/2400 (1)
208Y/120	480Y/277	12,000Y

(1) These voltages will be provided to existing customers who are currently being supplied at this level. No new customers will be served at these voltages. Customers with service changes (such as service upgrades) that are currently served at these voltages may be required to have their service voltages changed to a standard voltage.

E. Frequency and service voltage will be kept, whenever possible, within reasonable limits, but no guarantee concerning such frequency or service voltage shall be made.

(Ord. 2769 § 1, 1994: Ord. 1299 § 1 (part), 1975: prior code § 8.40.)

14.24.071 Green pricing program.

A. Effective November 19, 1999, residential and general service customers of the City electric utility may elect to receive a portion or all of their energy requirements from certified renewable sources. The products available are:

1. Roseville Electric Green 50. Certified renewable energy is provided for fifty percent of the customer's energy requirements. The price for Green 50 is a surcharge of $0.0050 per kWh applied to the customer's total energy consumption.

2. Roseville Electric Green 100. Certified renewable energy is provided for one hundred percent of the customer's energy requirements. The price for Green 100 is a surcharge of $0.0100 per kWh applied to the customer's total energy consumption.

3. Roseville Electric New Green. A surcharge of $0.0100 per kWh applied to the customer's total energy consumption to fund purchases by the City electric utility of new renewable energy resources. Customers may elect to participate in this program and the Green 50 or Green 100 simultaneously.

(Ord. 3436 § 1 (part), 1999.)

14.24.075 Senior citizen rate reductions.

A. This rate reduction was closed to new applicants effective June 1, 1998.

B. Effective January 14, 2000, all customers receiving the senior citizen rate reduction will receive a credit of twelve percent of charges calculated using standard residential rates.

(Ord. 3381 § 1 (part), 1999: Ord. 3207 § 1, 1998: Ord. 3091 § 3, 1997: Ord. 2734 § 2, 1994: Ord. 2123 § 2, 1988.)

14.24.077 Medical support rate reduction.

A. Any person who requires an in-home medical support device and is paying for electrical service at standard residential rates may apply for the following residential rate:

1. Effective January 1, 2004 all qualifying persons who apply for the medical support rate reduction shall receive a reduction equal to fifty percent of charges calculated using standard residential rates for the first 500 kWh of usage per billing period and fifteen percent of charges for all charges calculated using standard residential rates for usage in excess of 500 kWh.

B. Applications for reduced rates shall be made on forms supplied by the City and shall be submitted to the Finance Director, who shall review the applications and determine eligibility for reduced rates. The application shall be executed under penalty of perjury and be accompanied by the statement of a treating physician certifying the need for the in-home medical support device. The reduced rate shall terminate in the event the person requiring the use of the in-home medical support device no longer resides at the residential address receiving electricity at reduced rates. Persons who have been qualified to receive the reduced rate shall submit such documentation as the Finance Director may specify annually thereafter to certify continuing qualification as required by this section.

C. For the purposes of this section, a "medical support device" is defined as any medical device requiring utility-supplied electrical energy for its operation and which is regularly required to support the life of a person residing in a residential dwelling, including respirators, iron lungs, hemodialysis machines, suction machines, pressure pads and pumps, electro-static and ultrasonic nebulizers, IPPB machines, electric nerve stimulators, aerosol tents, compressors and motorized wheelchairs. A "medical support device" shall also include electric heating or air conditioning for paraplegic, hemiplegic and quadriplegic persons and electric heat or air conditioning for persons with multiple sclerosis.

D. For the purposes of this section, a "qualifying person" is defined as any person having a verifiable gross annual income of no greater than that specified by the U.S. Department of Housing and Urban Development as "Low Income" for Placer County.

E. The Finance Director may adopt such rules and regulations, consistent herewith, which he deems necessary to properly carry out the provisions of this section.

(Ord. 4007 § 2 (part), 2003: Ord. 3381 § 1 (part), 1999: Ord. 3091 § 4, 1997: Ord. 2894 § 1, 1995.)

14.24.079 Low-income rate reduction.

A. Effective July 1, 1998, any household with a total income no greater than that specified by the U.S. Department of Housing and Urban Development as " very low income" may apply for a fifteen percent rate reduction of all charges in the standard residential rate. Applications for reduced rates shall be on forms supplied by the City. All information required to be given on such forms shall be supplied by the applicant on behalf of the household under penalty of perjury.

B. Reduced rates shall be granted qualifying household which file applications with the Director of Finance. A change of address terminates the special rate provided in this section, but a new application at a new address may be made and the reduced rate shall be allowed, if the requirements set out in this section are satisfied.

C. For the purposes of this section, a "qualifying household" is defined as any household with a verifiable gross household income no greater than that specified by the U.S. Department of Housing and Urban Development as "Very Low Income" for Placer County.

D. This rate reduction replaces the Senior Citizen Rate Reduction, Municipal Code Section 14.24.075, for new applicants. Current Senior Citizen Rate Reduction participants may choose to remain on the existing senior reduced rate or apply for the Low-Income Rate Reduction.

E. No household may participate in more than one City electric rate reduction program concurrently.

(Ord. 3381 § 1 (part), 1999: Ord. 3207 § 2, 1998.)

14.24.080 General conditions.

A. Interference with Quality of Service. In any instance in which the director determines that any customer, because of noncompliance with any provision of this chapter, or any reasonable rule or regulation promulgated by the director pursuant to Section 14.24.170 has caused an interference with the quality of service received by that person or other customers, the director may require such customer to provide such additional or special equipment as may be required to eliminate such interference.

The customer may provide such additional equipment at his own expense, or the city may, upon approval of the superintendent, provide such equipment if the customer agrees:

1. To pay the cost of such equipment or
2. To rent such equipment from the city at such monthly rate as the director shall deem appropriate.

In the event a customer refuses to install the equipment necessary to eliminate such interference, the director may discontinue service to such customer until such time as the necessary equipment is procured.

B. Phase Balancing. For three-wire single-phase, or three-wire three-phase, or four-wire combination single-phase and three-phase services supplied, the load must be balanced as nearly as practicable between two sides or several phases, respectively. In no case is the load on one side of a three-wire single-phase service to be greater than twice that on the other, nor the load on any one phase of a three-

phase star service to be greater than twice that on any other phase.

(Ord. 1299 § 1 (part), 1975: prior code § 8.41.)

14.24.090 Voltage control within special tolerance.

When a customer desires voltage control within unusually close limits, the director may require the customer to provide, at his own expense, such additional equipment as required. Upon approval of the director, the customer may obtain the necessary equipment from the city by payment of the cost therefor, or may rent the same from the city at a monthly rental charge determined by the director. (Ord. 1299 § 1 (part), 1975: prior code § 8.42(a).)

14.24.100 Welding equipment.

City will serve, at the applicable rate and without additional compensation, welding equipment of the limited input type which conforms to the standards of the National Electrical Manufacturers' Association (NEMA), and which has a maximum input (primary) current rating not exceeding twelve amperes at one hundred twenty volts, or fifty amperes at two hundred eight or two hundred forty volts.

Welding equipment which does not meet the standards of NEMA or which exceeds in input rating twelve amperes at one hundred twenty volts, or fifty amperes at two hundred eight or two hundred forty volts, will also be served at the applicable rate without additional charge, provided that service to such welding equipment has no detrimental effect on service to neighboring customers. (Ord. 1299 § 1 (part), 1975: prior code § 8.42(b).)

14.24.110 Motor generator sets and rectifiers.

Motor generator sets and rectifiers shall be considered as power apparatus and shall be rated, for the purposes of determining charges, on the input rating as set by the manufacturer, or at the election of the director, by actual test. (Ord. 1299 § 1 (part), 1975: prior code § 8.42(c).)

14.24.120 Motor protective devices.

All motor installations shall have protective devices or be built to provide equivalent protection as follows:

A. Motors that cannot safely receive full rated voltage at starting shall have a device to insure that, upon failure of voltage, such motors will be disconnected.

B. Suitable overload and overcurrent protection shall be provided for each motor, so as to disconnect the motor in cases of overheating.

C. Phase reversal and open phase protection is required for all installations involving elevators, hoists, or similar equipment in order to disconnect motors in the event of phase reversal or opening of one phase.

(Ord. 1299 § 1 (part), 1975: prior code § 8.42(d).)

14.24.130 Motor starting limitations—Single-phase.

A. Automatically controlled, single-phase motorized equipment shall comply with all applicable NEMA standards and shall be equipped with motors having locked rotor currents not in excess of the following:

1. 100 amperes at 120 volts for residential use;
2. 200 amperes at 120 volts for commercial use;
3. 170 amperes at 208 volts for residential use;
4. 300 amperes at 208 volts for commercial use;
5. 170 amperes at 240 volts for residential use;
6. 340 amperes at 240 volts for commercial use;

B. Manually controlled, single-phase motorized equipment, shall be equipped with motors having locked rotor currents not in excess of the following:

1. 100 amperes at 120 volts for residential use;
2. 200 amperes at 120 volts for commercial use;
3. 170 amperes at 208 volts for residential use;
4. 300 amperes at 208 volts for commercial use;
5. 200 amperes at 240 volts for residential use;
6. 340 amperes at 240 volts for commercial use.

C. Motors having locked rotor currents in excess of those allowed by paragraphs A and B above, may be permitted upon written approval of the director.

(Ord. 3850 § 1, 2002: Ord. 3789 § 1, 2002; Ord. 1299 § 1 (part), 1975: prior code § 8.42(e) (1).)

14.24.140 Motor starting limitations—Three-phase.

A. Automatically controlled, three-phase motors shall comply with all applicable NEMA standards and shall have maximum locked rotor currents not in excess of the following:

1. 770 amperes at 208 volts;
2. 673 amperes at 240 volts;
3. 337 amperes at 480 volts.

Maximum permissible current values listed apply to the installation of a single motor.

B. Manually controlled, three-phase motors shall comply with all applicable NEMA standards and shall have maximum locked rotor currents not in excess of the following:

1. 1554 amperes at 208 volts;
2. 1346 amperes at 240 volts;
3. 673 amperes at 480 volts;
4. 135 amperes at 2400 volts;

Maximum permissible current values listed apply to an installation of a single motor.

C. Three-phase motors to be used for large loads or when special conditions exist may have locked rotor currents in excess of those allowed by paragraphs A and B above, upon approval of the superintendent.

D. Motors having maximum locked rotor currents exceeding those stated in paragraphs A and B above, may be operated if used in conjunction with current-limiting devices designed to limit the starting current to the above-specified maximum values.

E. Current-limiting devices may be omitted on the smaller motors of a group installation where such omission will not result in a starting current in excess of the allowable starting current of the largest motor in the group.

(Ord. 1299 § 1 (part), 1975: prior code § 8.42(e) (2).)

14.24.150 Power factor correction.

In case of neon, luminous, gaseous, or mercury vapor lamps or tubes, electrical welders, and other devices having low power factors, a customer may be required to provide, at his own expense, power factor corrective equipment to increase the power factor of any such device to not less than ninety-five percent. (Ord. 1299 § 1 (part), 1975: prior code § 8.42(f).)

14.24.160 Discontinuing service.

The director may cause service to be discontinued under any of the following conditions:

A. Failure to pay for all or any portion of electrical service as directed by the director of finance;

B. Where any equipment or wiring of any customer is unsafe, in the opinion of the director, or in violation of any provision of this chapter or any provision of the city code or any other applicable ordinance or law. In the event the director determines that any equipment or wiring is imminently dangerous to the public health, safety and welfare, the electrical service may be terminated without notice to the customer, and shall not thereafter be restored until the defective and unsafe condition is remedied;

C. When the operation of equipment of a customer is detrimental to the electric service received by other customers;

D. When the customer has tampered with any equipment of the system or has attempted to defraud the system;

E. Upon the refusal of the customer to comply with any provisions of this chapter or any reasonable rule or regulation promulgated by the director pursuant to Section 14.24.230.

(Ord. 1299 § 1 (part), 1975: prior code § 8.43.)

14.24.170 Temporary service.

A customer rate may receive temporary service upon application to the director upon prior payment of the estimated cost to the system of installing and removing all facilities connected with the temporary service, and upon payment, as the director may require, of additional sums necessary for the system to continue to provide such temporary service. (Ord. 1299 § 1 (part), 1975: prior code § 8.44.)

14.24.180 Shortage of supply and interruption of service.

All customers receiving electrical energy from the system do so with the express understanding that:

A. Neither the system, the city, nor its agents or employees shall be liable for any interruption of service or any insufficiency of supply of electrical energy, or any loss or damage of any kind or character caused thereby, or due to any condition existing within any wiring or equipment owned by or under the control of any customer; and

B. The system may suspend, when necessary, delivery of electrical energy in order to make any necessary repairs to the system; and

C. In case of shortage of supply, the system will apportion such supply to all customers in the manner deemed most efficient and equitable by the director, but without any prior commitment concerning the apportionment of any available supply.

(Ord. 1299 § 1 (part), 1975: prior code § 8.45.)

14.24.190 Extension of facilities.

A. Individual Applications and Advance Notice.

Extensions of electric lines will be constructed, owned, operated and maintained by the City at the request of a customer in accordance with this and other applicable City rules and regulations and as determined by the Director.

B. Extensions Subject to Right-of-Way or Easements.

Customer requested electric line extensions will be constructed only in satisfactory easements provided without cost to the City.

C. Extensions Required to be Underground.

1. All extensions of facilities will be underground except: a. When the Director determines that underground installation is impractical; or b. When the service is of a temporary nature; or c. the facilities are intended to be used at subtransmission or transmission voltages.

2. Customer Construction Responsibilities: In addition to costs and responsibilities for electric service pursuant to this section and Section 14.24.200, the customer shall provide all trenching, excavation, backfill, compaction, grading, marking of property lines in accordance with the specifications and requirements of the City. Additional materials and installations, depending on the type of development, are required as follows:

a. New residential subdivisions.

(1) Furnish and install secondary service conduit and conductor from service box to house.

b. Commercial electric utility installations including commercial and industrial development, apartments, condominiums, townhomes and mobile homes.

(1) Furnish and install all materials not installed by City electric crews which shall include, but not be limited to, transformer vaults or pads, primary junction boxes and covers, conduit for primary cable and riser poles including conduit strap for riser poles in accordance with City of Roseville Specifications for Commercial Construction.

(2) Furnish and install all street-lighting in accordance with the City of Roseville Specifications for Commercial Construction. (3) Furnish and install secondary

service conduit and conductor.

c. Customers are responsible for design, installation and maintenance of streetlight facilities on private roadways and private property.

3. Development Fees: Distribution facility extensions will be installed, owned and maintained by the City. A customer will be required to make a nonrefundable payment, prior to construction, equal to the amount of the City's estimate of the cost of distribution facilities to and within the development (sometimes known as Contribution in Aid of Construction or direct charge), and Council authorized administrative and general expenses.

D. Special Service Request.

A customer requesting special service, for example, service at a voltage not presently available in an area or requesting capacity for intermittent use, may obtain such service if, in the sole judgment of the Director, it is practical to supply such service without adverse effect on the existing system or other customers. The customer will be required to make a non- refundable payment, prior to construction, equal to the City cost estimate of the special services.

E. Capacity Increase.

A customer increasing the capacity of the main switchboard, service entrance equipment/main circuit breaker will be required to make a non-refundable payment equal to the estimated cost of any necessary increase in capacity of the distribution system to supply the additional capacity.

F. Modification of Existing System.

A customer wanting to modify the City's existing system for the customer's benefit may have the City do so provided:

1. Such modification has no adverse effect on the City's system or existing customers.
2. The customer makes a non-refundable payment, prior to engineering, equal to the estimated amount of engineering design services.
3. The customer makes a non-refundable payment, prior to construction, equal to the estimated amount of such modification.
4. Work is done at the City's convenience.

G. Non-Contiguous Developments.

The City will extend its facilities to serve non-contiguous developments within city limits provided:

1. The customer makes a non-refundable payment, prior to construction, equal to the City's cost estimate of the supply extension(s) necessary to serve the development.
2. The customer obtains, at no cost to the City, satisfactory easements for the extension.

(Ord. 2710 § 1 (part), 1993: Ord. 2407 § 1 (part), 1991: Ord. 2394 § 1 (part), 1991: Ord. 1299 § 1 (part), 1975: prior code § 8.46.)

14.24.195 Relief from unjust electric utility charges.

A. In the event of disputed City utility charges, the owner or occupant of any premises may within twenty (20) days of billing, appeal City utility charges by depositing the amount billed with the Finance Department and making a written application to the City Manager or his/her designee stating the circumstances and requesting an adjustment in the charges. The City Manager or his/her designee may, upon such application, find that the charges are unjust, inequitable or otherwise inappropriate as applied

to the particular premises. The City Manager or his/her designee may adjust an individual bill or make a permanent adjustment as required by the circumstances.

B. The decision of the City Manager or his/her designee may be appealed to the Roseville Public Utility Commission by filing a written request with the City Manager or his/her designee within twenty (20) days of the original decision.

C. The decision of the Roseville Public Utility Commission may be appealed to the City Council by the owner, the occupant or the City by filing a written request with the City Clerk within twenty (20) days of the Roseville Public Utility Commission's decision.

(Ord. 3430 § 4 (part), 1999.)

14.24.200 Service connections and facilities on customer's premises.

A. Service in Areas Supplied by Overhead Facilities.

1. Primary Voltage (12,000 volts) and Secondary Voltage (600 volts or less) Service. In areas served through overhead facilities, the City will provide and install a service drop from its pole line to the first point of attachment on the property of the customer as approved by the Director. The customer shall pay to the City, in advance of construction, a non-refundable sum equal to the City's estimated cost of such service.

2. Underground Service From Overhead Facil-ities. In areas supplied by overhead facilities only, when the Director requires or the customer desires underground service, such service shall be supplied to the customer provided the customer pays for all distribution facilities to and on his property according to a design and under specifications approved by the Director.

3. Overhead Service at Transmission Voltage (60,000 volt). Service at this voltage level is available only at certain locations in the City and on specific approval of the Director. The customer shall pay to the City, in advance of construction, a non-refundable sum equal to the City's estimated cost of providing such service. The Director shall determine specific requirements for this type of service at time of application.

B. Service in Areas Supplied by Underground Facilities.

1. Below 600 volts.

a. Single-family Residential Subdivision: The customer shall install, own and maintain conduit and conductor from the customer's service equipment (conduit from conduit stub in foundation) to the City's distribution equipment. The customer shall pay to the City, in advance of construction, a non-refundable sum equal to the City's estimated cost of the service system throughout the development. All trenching excavation, backfill and compaction shall be furnished by the customer.

b. Multi-family Residential, Mobile Home Parks, Commercial and Industrial Developments: The customer shall furnish, install, own and maintain all conduit, cable, etc., from the customer service equipment to the City's distribution facilities per City and inspecting agency requirements. The customer shall pay to the City, in advance of construction, nonrefundable sum equal to the City's estimated cost, including terminations of the service conductors at the service end point in the distribution facilities of such service.

2. Primary Underground Service (12,000 volt).

The City will install, own and maintain conductor from the customer's service equipment to the City's distribution equipment. The customer shall pay to the City, in advance of construction, a non-refundable sum equal to the City's estimated cost of the service. All trenching, excavation, backfill, compaction, conduit and substructure installation shall be furnished by customer to the City's specifications. Customer service equipment shall be approved by the City and shall include three phase gang- operated switch, protection devices, cable termination devices pursuant to City requirements and provisions for metering equipment pursuant to the Electric Utility Service Entrance Rules Committee standards and the requirements of the Director.

3. Underground Service (60,000 Volt). Underground service at the 60,000 volt voltage level is not available.

C. Electrical Service Inspections.

No new or newly rewired electrical installations will be energized by the City without a signed electrical inspection tag from the Chief Building Inspector.

D. Service Connections.

1. The City will not connect to any one building more than one service of each voltage classification, either overhead or underground, except:

   a. For the City's operating convenience.

   b. Where such additional service may be warranted because of load requirements.

   c. Where the customer is required by law to have certain emergency services.

2. Connection of service to, or disconnection from, the City's lines shall be made only as authorized by the City.

E. Ownership of Facilities.

1. All facilities installed on a customer's premises, including not limited to, poles, conductors, transformers, meters, etc., which are furnished by the City in order to render service, shall remain the sole property of the City.

2. The customer shall not charge the City rent or any other charge for the facilities placed on the customer's premises or for access to such facilities.

F. Right of Access.

1. The City shall have the right of access to the customer's premises, at all reasonable hours for any purpose related to the furnishing of electric service including, but not limited to meter reading, testing, inspection, construction, maintenance and repair of facilities.

2. Service may be refused or disconnected pursuant to Section 14.24.160 if permanent safe accessibility is not provided by the customer.

3. Upon termination of service, the City shall have the right of access to the service premises to remove its facilities.

4. The customer shall obtain and provide the City with all necessary easements as required by the City.

G. Customer Responsibilities.

1. It shall be the duty of each customer upon whose premises the City has installed facilities as described in Paragraphs E and F to insure that such facilities are not damaged, destroyed or interfered with and, in the case of any defect in any such facilities, to notify the City.

2. The customer shall, at his own risk and expense, furnish and install, inspect and keep in good and

safe condition, all facilities required for receiving electrical energy from facilities of the City and for utilizing such energy, including all necessary protective devices. The system, the City or its agents or employees shall not be responsible for or liable for any loss or damage occasioned by any condition or defect in any facility or equipment owned by any customer.

H. Metering Installations.

1. Location

a. All meters and metering equipment, ex-cept cabinets, will be supplied and installed by the City upon the service premises at a location approved by the Director.

b. All meters shall be safety accessible to authorized employees of the City at all times for inspection, testing and reading.

c. The City may require a customer to relocate a metering installation, at customer's expense, if any existing meter location becomes inaccessible or for other operational needs.

2. No person shall tamper with any meter or break the seal on any meter or cause electricity to bypass any meter.

I. Conflict with Equipment and Facilities.

Conflicts occurring when equipment or facilities installed by the City including, but not limited to, metering equipment becomes obstructed, covered, inaccessible, or exposed to traffic, as a result of landscaping, screening, fencing and driveway widening caused by the customer property owner and/or occupant of the property on which or adjacent to which the equipment and facilities were originally installed, shall be corrected as specified or carried out by the Director at the cost of the customer.

J. Tree Trimming (Line Clearing).

The Electric Department may, from time- to-time, trim, clear away and, if necessary, cut down trees and brush in the vicinity of its overhead lines within its easements.

(Ord. 2407 § 1 (part), 1991: Ord. 2394 § 1 (part), 1991: Ord. 1299 § 1 (part), 1975: prior code § 8.47.)

14.24.205 Financing.

Notwithstanding any provision of Sections 14.24.190 or 14.24.200 calling for advance payment, the City may from time to time allow for payments to be made over time under circumstances, criteria, terms and conditions established by the Director and approved by the City Council. (Ord. 2407 § 2, 1991.)

14.24.210 Meter tests and adjustment of bills for meter error.

A. Meter Tests.

1. Any customer may request the City electric utility to test the customer's electric meter. An Energy Service Provider may request the City electric utility to test the electric meter or recording device of its contracted customer. The customer shall be notified of any request for a meter test made by their Energy Service Provider. No payment or deposit will be required from the requester of the test except that when a request is made to test a meter within six months after date of installation of the meter, or more often than once in six months thereafter, a deposit to cover the reasonable cost of the test will be required of the requester. The amount so

deposited will be returned to the requester if the meter is found, upon test, to register more than 2% fast or slow under conditions of normal operation. Within a reasonable time after a request is made the director shall conduct a test of the meter to determine whether or not it is functioning properly. A report giving the results of the test will be supplied to the customer and, if requested, to the Energy Service Provider, by the Director within a reasonable time after the completion of the test.

2. The requester shall have the right to require the City electric utility to conduct the test in his/her presence or, if the requester so desires, in the presence of an expert or other representative appointed by the requester. Provided, however, that the test shall be conducted during normal City working hours.

3. No meter will be placed in service or allowed to remain in service which has on average an error in excess of more than two (2%) percent of registration under conditions of normal operation.

B. Adjustment of Bills for Meter Error. Where, as the result of any meter test, a meter is found to be nonregistering or incorrectly registering, the City may render an adjusted bill to the customer for the amount of any undercharge of City electric utility charges, without interest, and shall issue a refund or credit to the customer for the amount of the overcharge, without interest. Adjusted billings shall be computed back to the date that the City determines the meter error commenced, except that the period of adjustment shall not exceed one (1) year for a refund and six (6) months for an undercharge. An adjusted bill shall be computed in accordance with the following:

1. Fast Meter: If a meter is found to be registering more than two (2%) percent fast, the City will refund to the customer the amount of the overcharge based on corrected meter readings if available, or the City's estimate of the correct energy usage either for the known period of meter error, not to exceed one (1) year or, if the period of error is not known, for the period during which the meter was in use, not to exceed one (1) year.

2. Slow Meter: If a meter for residential service is found to be registering more than twenty-five (25%) percent slow, or if a meter for nonresidential service is found to be registering more than two (2%) percent slow, the City may bill the customer for the amount of the undercharge based on corrected meter readings if available or the City's estimate of the energy usage for the known period of meter error or, if the period of meter error is not known, for the period the meter was in use, not to exceed three (3) months for residential service and six (6) months for all other classes of service.

3. Nonregistering Meter: If a meter is found to be nonregistering, the City may bill the customer for the City's estimate of the electric service used but not registered, not to exceed three (3) months for residential service and six (6) months for all other classes of service. The bill will be computed on the basis of information including, but not limited to, available meter readings, records of historical use and the general characteristics of the customer's load and operation.

C. Adjustment of Bills for Billing Error.

Where the City overcharges or undercharges a customer as the result of a billing error, the City may render an adjusted bill for the amount of the City electric overcharge or undercharge, without interest, and shall issue a refund or credit to the customer for the amount of the overcharge, without interest, for the same periods as for meter error. Estimated bills for the "billing error" use period may be determined by the Director based on the following

1. Accurately metered subsequent use, normally thirty (30) days or more (where thirty (30) days is not available for reasons such as the customer discontinues service after correction of the "billing error" use condition but prior to the completion of thirty (30) days the Director may use

a shorter period); or

2. Accurately metered use prior to the onset of the "billing error" use, normally one year or more (the Director may use less than one (1) year when it is the only appropriate or available recorded prior usage); or
3. Accurately metered use from a remote check meter; or
4. The customer's equipment and hours of operation; or
5. The known percent error in metering attributable to the "billing error" use condition as determined by the Director; or
6. Annual use profile of like customers (percent of annual use); or
7. Any combination of the methods listed above; or
8. Other reasonable and supportable billing methodology when none of the aforementioned billing techniques is appropriate under the circumstances.

In accordance with Section 14.24.195, the customer has the right to dispute the City's estimate of the "billing error" usage on which the bill is based. However, the customer may be required to provide supporting information to substantiate this dispute.

(Ord. 3430 § 3 (part), 1999: Ord. 2655 § 1, 1992: Ord. 2407 § 1 (part), 1991: Ord. 2394 § 1 (part), 1991: Ord. 1299 § 1 (part), 1975: prior code § 8.48.)

14.24.211 Adjustment of bills for unauthorized use.

Where the City determines that there has been unauthorized use of any electric service, the City may bill the customer for such use based on City's estimate of the amount of unauthorized use for up to three (3) years. Such estimated billing shall indicate unauthorized use for the most recent three (3) years. (Ord. 3430 § 3 (part), 1999: Ord. 2655 § 2, 1992.)

14.24.220 Violations.

Any person violating any provision of this chapter with the exception of Section 14.24.240, shall be guilty of infraction as that term is now or may hereafter be defined by the laws of the state of California. (Ord. 1299 § 1 (part), 1975: prior code § 8.51.)

14.24.230 Rules and regulations.

The Director is authorized and directed to promulgate such rules and regulations as are reasonably necessary to carry out the specific provisions and the intent of this chapter. Such rules and regulations shall be in written form and available to any customer.

A. In the event any customer is aggrieved by reason of any Electric Utility Department rule or regulation such customer may bring such matter to the attention of the Director, making a written application stating the circumstances and requesting a specific remedy.

B. The decision of the Director may be appealed to the Roseville Public Utility Commission by filing a written request with the Director within twenty (20) days of the Director's decision.

C. The decision of the Roseville Public Utility Commission may be appealed to the City Council by the owner, the occupant or the City by filing a written request with the City Clerk within twenty (20) days of the Roseville Public Utility Commission's decision.

(Ord. 3430 § 3 (part), 1999: Ord. 1299 § 1 (part), 1975: prior code § 8.52.)

14.24.240 Resale of electricity.

It is unlawful and a misdemeanor for any person to resell any energy received from the system, except that a landlord may charge a tenant the amount which the landlord must pay for electrical energy. (Ord. 1299 § 1 (part), 1975: prior code § 8.50.)

14.24.250 Sale, transmission and delivery of electric energy.

It is unlawful for any person to transmit or deliver electric energy or capacity to ultimate consumers or end users for use within the city, including the transmission or delivery by an end user or consumer of electric energy purchased outside the city to himself or itself; or to transmit or deliver electric energy or capacity for profit at retail within the city or from retransmission or redelivery within the city. This section shall not apply to energy or capacity sold, transmitted, or delivered by the city or pursuant to a valid city franchise Nothing in this section shall prohibit sale of energy or capacity by an electric utility to another electric utility for later resale or transmission to consumers or end users (i.e., wholesale sale, delivery or transmission), or transmission of electric energy through the city without delivery, sale, or transmission to consumers or end users for use within the city. This section shall not apply to the purchase or sale of electric energy or capacity from or by an Energy Service Provider registered with the City and operating pursuant to Section 14.24.270, and transmitted or delivered by the City. The sale of electric energy or capacity by Electric Service Providers other than the City to ultimate consumers or end users for use within the City shall be conducted in accordance with the Roseville Customer Choice Program Rules and Regulations. (Ord. 3430 § 3 (part), 1999: Ord. 2087 § 1, 1988.)

14.24.260 Use of electric energy.

It is unlawful for any person to utilize within the city electric energy which is received from any source other than the City electric utility, a utility having a valid city electric franchise applicable for service to that person, an Energy Service Provider registered with the City and authorized to provide electric energy to that person, or which that person generates himself. (Ord. 3430 § 3 (part), 1999: Ord. 2087 § 2, 1988.)

14.24.270 Electric power supply.

The City Manager is authorized to develop and implement a Customer Choice program to offer electric customers direct access to generation services. (Ord. 3430 § 4 (part), 1999.)

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

GENERAL CERTIFICATE AS TO CITY COUNCIL
AND OFFICERS OF THE CITY AND SIGNATURES

We, W. Craig Robinson, City Manager of the City of Roseville, California (the "City"), and Sonia Orozco, City Clerk of the City, HEREBY CERTIFY as follows:

1. that the members of the City Council of the City were on January 10, 2007, and continue as such members to the date hereof as follows:

Name	Office
James Gray	Mayor
Gina Garbolino	Mayor Pro Tem
John Allard	Councilmember
Carol Garcia	Councilmember
Richard Roccucci	Councilmember

2. that the persons holding the following offices and positions and duly appointed thereto and acting therein were on January 10, 2007, and continue to hold such offices and positions to the date hereof, as follows:

Name	Office
W. Craig Robinson	City Manager
Sonia Orozco	City Clerk

3. that the signatures set forth opposite the respective names of the following designated officers of the City are manual specimens of their signature:

Name	Office	Signature
W. Craig Robinson	City Manager	W. Craig Robinson
Sonia Orozco	City Clerk	Sonia Orozco

IN WITNESS WHEREOF, we have hereunto set our hands this 6th day of February, 2007.

W. Craig Robinson
City Manager

Sonia Orozco
City Clerk

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF THE MUNICIPALITY

I, W. Craig Robinson, City Manager of the City of Roseville, California (the "Municipality"), HEREBY CERTIFY as follows:

1. that the Municipality is a municipal corporation and chartered city of the State, duly established and existing under its charter and the laws of the State and has the power and authority to own its own property and to carry on its electric utility business as now conducted;

2. that the information contained in the Official Statement relating to the Municipality is, and at all times subsequent hereto to and including the date of the Closing will be, true and correct in all material respects and does not contain and, at all such times, will not contain any untrue statement of a material fact and does not omit and, at all such times, will not omit, to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

3. that the Municipality has duly authorized all actions required to be taken by it for the approval, execution, delivery and due performance of the Supply Agreement;

4. that except as is described in the Preliminary Official Statement and the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or inequity, before or by any court, public board or body, pending (*i.e.*, as to which the Authority has received service of process) or, to the knowledge of the Municipality, threatened against or affecting the Municipality (or, to the knowledge of the Municipality, any meritorious basis therefor) (i) attempting to limit, enjoin or otherwise restrict or prevent the Municipality from functioning or contesting or questioning the existence of the Municipality or the titles of the present officers of the Municipality to their offices or (ii) wherein an unfavorable decision, ruling or finding would (A) materially adversely affect the existence or powers of the Municipality or the validity or enforceability of the Supply Agreement; or (B) materially adversely affect: (1) the financial condition or results of operations of the Municipality; or (2) the transactions contemplated hereby or by the Official Statement;

5. that the Municipality's obligation to pay the Contract Price for gas delivered pursuant to the Supply Agreement will be classified as an operation and maintenance cost of its electric utility system; operation expenses, which also include payments for electric generation and transmission service to joint action agencies in which the Municipality's electric utility system participates, are payable prior to outstanding obligations of the Municipality payable from net revenues of the electric utility system; and

6. that the financial statements of the Municipality contained as Appendix B to the Official Statement fairly present the financial position and results of operations of the Municipality as of the dates and for the periods therein set forth in accordance with generally accepted accounting principles applied consistently; and as of the date hereof, except as expressly set forth in the Official Statement, there has been no material adverse change in the financial condition or results of operations of the Municipality since the date of such financial statements.

All capitalized terms not otherwise defined herein are ascribed the meanings thereto defined in the Bond Purchase Contract with respect to the Bonds.

IN WITNESS WHEREOF, I have hereunto set my hand this 6th day of February, 2007.

W. Craig Robinson
City Manager

(Multicurrency—Cross Border)

ISDA®

International Swap Dealers Association. Inc.

MASTER AGREEMENT

dated as of January 24, 2007

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	and	ROSEVILLE NATURAL GAS FINANCING AUTHORITY

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:—

1. Interpretation

(a) *Definitions.* The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) *Inconsistency.* In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.

(c) *Single Agreement.* All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations

(a) *General Conditions.*

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(b) ***Change of Account.*** Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) ***Netting.*** If on any date amounts would otherwise be payable:—

(i) in the same currency; and

(ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) ***Deduction or Withholding for Tax.***

(i) ***Gross-Up.*** All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:—

(1) promptly notify the other party ("Y") of such requirement;

(2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;

(3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and

(4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:—

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) ***Liability.*** If:—

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) ***Default Interest; Other Amounts.*** Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:—

(a) ***Basic Representations.***

(i) ***Status.*** It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) ***Powers.*** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;

(iii) ***No Violation or Conflict.*** Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) ***Consents.*** All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) ***Obligations Binding.*** Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

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(b) ***Absence of Certain Events.*** No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) ***Absence of Litigation.*** There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) ***Accuracy of Specified Information.*** All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) ***Payer Tax Representation.*** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) ***Payee Tax Representations.*** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

(a) ***Furnish Specified Information.*** It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:—

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) ***Maintain Authorisations.*** It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) ***Comply with Laws.*** It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) ***Tax Agreement.*** It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) ***Payment of Stamp Tax.*** Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. Events of Default and Termination Events

(a) ***Events of Default.*** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:—

(i) ***Failure to Pay or Deliver.*** Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) ***Breach of Agreement.*** Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) ***Credit Support Default.***

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) ***Misrepresentation.*** A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) ***Default under Specified Transaction.*** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) ***Cross Default.*** If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) ***Bankruptcy.*** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:—

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) ***Merger Without Assumption.*** The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer:—

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) ***Termination Events.*** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event

Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:—

(i) ***Illegality.*** Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):—

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) ***Tax Event.*** Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) ***Tax Event Upon Merger.*** The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) ***Credit Event Upon Merger.*** If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) ***Additional Termination Event.*** If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) ***Event of Default and Illegality.*** If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. Early Termination

(a) ***Right to Terminate Following Event of Default.*** If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) ***Right to Terminate Following Termination Event.***

(i) ***Notice.*** If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) ***Transfer to Avoid Termination Event.*** If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) ***Two Affected Parties.*** If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) ***Right to Terminate.*** If:—

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then

continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) **Effect of Designation.**

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) ***Calculations.***

(i) ***Statement.*** On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) ***Payment Date.*** An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) ***Payments on Early Termination.*** If an Early Termination Date occurs. the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) ***Events of Default.*** If the Early Termination Date results from an Event of Default:—

(1) *First Method and Market Quotation.* If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) *First Method and Loss.* If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) *Second Method and Market Quotation.* If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) *Second Method and Loss.* If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) ***Termination Events.*** If the Early Termination Date results from a Termination Event:—

(1) *One Affected Party.* If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) *Two Affected Parties.* If there are two Affected Parties:—

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) ***Adjustment for Bankruptcy.*** In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) ***Pre-Estimate.*** The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:—

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Contractual Currency

(a) ***Payment in the Contractual Currency.*** Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into this Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) ***Judgments.*** To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) ***Separate Indemnities.*** To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) ***Evidence of Loss.*** For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

9. Miscellaneous

(a) ***Entire Agreement.*** This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) ***Amendments.*** No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) ***Survival of Obligations.*** Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) ***Remedies Cumulative.*** Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) ***Counterparts and Confirmations.***

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) ***No Waiver of Rights.*** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) ***Headings.*** The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

10. Offices; Multibranch Parties

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.

(b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.

(c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

11. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document

to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. Notices

(a) ***Effectiveness.*** Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:—

(i) if in writing and delivered in person or by courier, on the date it is delivered;

(ii) if sent by telex, on the date the recipient's answerback is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) ***Change of Addresses.*** Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

13. Governing Law and Jurisdiction

(a) ***Governing Law.*** This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) ***Jurisdiction.*** With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:—

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) ***Service of Process.*** Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) ***Waiver of Immunities.*** Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. Definitions

As used in this Agreement:—

"Additional Termination Event" has the meaning specified in Section 5(b).

"Affected Party" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"Affiliate" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Applicable Rate" means:—

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"Burdened Party" has the meaning specified in Section 5(b).

"Change in Tax Law" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"consent" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iv).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"Indemnifiable Tax" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"law" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and ***"lawful"*** and ***"unlawful"*** will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Office" means a branch or office of a party, which may be such party's head or home office.

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Relevant Jurisdiction" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"Scheduled Payment Date" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of:—

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"Specified Entity" has the meaning specified in the Schedule.

"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Stamp Tax" means any stamp, registration, documentation or similar tax.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"Tax Event" has the meaning specified in Section 5(b).

"Tax Event Upon Merger" has the meaning specified in Section 5(b).

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Currency" has the meaning specified in the Schedule.

"Termination Currency Equivalent" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"Termination Event" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	ROSEVILLE NATURAL GAS FINANCING AUTHORITY
(Name of Party)	(Name of Party)
By: Mark Lenczowski	By: W. Craig Robinson
Name: Mark Lenczowski	Name:
Title: Vice President	Title:

ISDA ® 1992

SCHEDULE

to the 1992

ISDA MASTER AGREEMENT
(Multicurrency-Cross Border)

dated as of January 24. 2007

between

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
a national banking association organized under the laws of the United States of America
("Party A")

and

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
created and existing under the California Joint Exercise of Powers Act, as amended, and that certain Joint Exercise of Powers Agreements, dated as of November 1, 2006.
("Party B")

Part 1
TERMINATION PROVISIONS

In this Agreement:

(a) **"Specified Entity"** means in relation to Party A and Party B for the purpose of:

Section 5(a)(v):	Not Applicable
Section 5(a)(vi)	Not Applicable
Section 5(a)(vii):	Not Applicable
Section 5(b)(iv):	Not Applicable

(b) **"Specified Transaction"** will have the meaning specified in Section 14 of this Agreement, provided, however, "weather derivative transactions" shall be added after "currency option" in line 8 thereof.

(c) The **"Cross Default"** provisions of Section 5(a)(vi) of this Agreement will apply to Party A and Party B.

"Specified Indebtedness" will have the meaning specified in Section 14 of this Agreement, provided however that with respect to Party A, such term shall not include obligations in respect of deposits received in the ordinary course of Party A's banking business

"Threshold Amount" means (i) with respect to Party A, an amount equal to three percent of the shareholders' equity of Party A and (ii) with respect to Party B, $1,000,000.00..

(d) The **"Credit Event Upon Merger"** provisions of Section 5(b) (iv) as amended herein, will apply to Party A and to Party B.

(i) Section 5(b)(iv) of this Agreement shall be amended to read as follows: "Credit Event Upon Merger" means that a Designated Event (as defined below) occurs with respect to a party, any Credit Support Provider of such party, or any Specified Entity of such party and such action does not constitute an event described in Section 5(a)(viii) but, in the reasonable opinion of the other party, the creditworthiness of the successor, surviving or transferee entity, taking into account any applicable Credit Support Document (except any applicable Credit Support Annex or other agreement providing for the pledge of collateral or any similar agreement) (in which case the party or its successor or transferee, as appropriate, will be the Affected Party) is materially weaker than that of its predecessor, immediately prior to the occurrence of the Designated Event. For purposes hereof, a Designated Event means that, after the Trade Date of any Transaction:

(A) the party, any Credit Support Provider of the party or any Specified Entity of the party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets (or any substantial part of the assets comprising the business of that party) to, or reorganizes, incorporates, reincorporates, or reconstitutes into or as, another entity, or another entity consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, or reorganizes, incorporates, reincorporates, reconstitutes into or as, such party; or

(B) any person or entity acquires directly or indirectly the beneficial ownership of equity securities having the power to elect a majority of the board of directors of the party, any Credit Support Provider of the party or any applicable Specified Entity of the party; or

(C) the party, any Credit Support Provider of the party, or any applicable Specified Entity of the party enters into an agreement providing for any of the foregoing.

(ii) For purposes of Section 5(b)(iv), "materially weaker" shall mean the following:

A party fails to maintain a long-term unsecured, unsubordinated debt rating or any successor rating of at least A1 as determined by Moody's Investors Service Inc. (or such rating agency's successors or assigns) ("Moody's") and A+ as determined by Standard & Poor's Ratings Group or Fitch Ratings (or such rating agency's successors or assigns ("S&P")) or (ii) if no such ratings exist, the Policies (as defined below) in effect at the time, of the non-Affected Party, would lead such non-Affected Party, solely as a result of a change in the nature, character, identity or condition of the Affected Party from its state (as a party to the Agreement) prior to such consolidation, amalgamation, merger or transfer, to decline to make an extension of credit to, or enter into a Transaction with, the resulting, surviving or transferee entity. For purposes of this definition, "Policies" means a party's (1) internal credit limits applicable to individual entities, (2) other limits on doing business with entities domiciled in certain jurisdictions or engaging in certain activities, or (3) internal restrictions on doing business with entities with whom such party has had prior adverse business relations.

(e) The **"Automatic Early Termination"** provisions of Section 6(a) of this Agreement will not apply to Party A and will not apply to Party B;

(f) **Payments on Early Termination.** For the purpose of Section 6(e) of this Agreement:

(i) Loss will apply, and

(ii) The Second Method will apply.

(g) **"Termination Currency"** means United States Dollars.

(h) The parties agree to amend Section 5(a)(vii)(4) to delete, following the word "liquidation", the clause beginning with " and, in the case of" and ending with the word "thereof".

Part 2
TAX REPRESENTATIONS

(a) **Payer Representations.** For the purpose of Section 3(e) of this Agreement, each of Party A and Party B will make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction of the agreement contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement, provided that it shall not be a breach of this representation where reliance is placed on clause (ii) herein and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(b) **Payee Tax Representations.** For the purpose of Section 3(f) of this Agreement, Party A and Party B make the representation(s) specified below, if any:

Party A: Party A is a national banking association organized under the laws of the United States of America and is a resident of the United States of America.

Party B: Party B is a joint exercise of power agency and a public entity organized under the laws of the State of California and is a resident of the United States of America for tax purposes.

Part 3
AGREEMENT TO DELIVER DOCUMENTS

For the purpose of Section 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents, as applicable:

(a) Tax forms, certificates, or other documents to be delivered to be delivered are:

Party required to deliver document	Form/Document/ Certificate	Date by which to be delivered
Party A and Party B	United States Internal Revenue Service Form W-9, or any successor form.	(i) On the date which is before the first Scheduled Payment Date under this Agreement, (ii) promptly upon reasonable demand by the other party, and (iii) promptly upon learning that any such form previously provided by the other party has become obsolete, incorrect, or ineffective.

Party Required to Deliver Document	Form/Document/ Certificate	Date by which to Be Delivered	Covered by Section 3(d) Representation
Party A/Party B.	Annual audited financial statements (or, in the case of Party A, of JPMorgan Chase & Co.) prepared in accordance with generally accepted accounting principles in the country in which the party is organized.	Promptly after request.	Yes.
Party A.	Quarterly unaudited financial statements (which, in the case of Party A, will be in the form of call reports) prepared in accordance with generally accepted accounting principles in the country in which the party is organized.	Promptly after request.	Yes.
Party A/Party B.	Credit Support Document, if any, specified in Part 4 of the Schedule, such Credit Support Document being duly executed if required.	Concurrently with the execution of this Agreement.	No.
Party A/Party B.	Opinion of counsel reasonably satisfactory in form and substance to the other party.	Concurrently with the execution of this Agreement.	Yes.
Party A/Party B.	Evidence of the authority, incumbency and specimen signature of each person executing this Agreement or any Confirmation, Credit Support Document or other document entered into in connection with this Agreement on its behalf	Upon or prior to the delivery of each such document by any such person.	Yes.
Party B	Each of the documents or notices required to be delivered by Party B to the Trustee pursuant to Section 7.09(c) of the Trust Indenture.	Upon the delivery of each such documents by Party A to the Trustee	Yes

Part 4
MISCELLANEOUS

(a) **Addresses for Notices.** For the purpose of Section 12(a) of this Agreement:

Address for notices or communications to **Party A:**

Any notice relating to a particular Transaction shall be delivered to the address or facsimile number specified in the Confirmation of such Transaction. Any notice delivered for purposes of Sections 5 and 6 of this Agreement shall be delivered to each of the following addresses:

JPMorgan Chase Bank, National Association
Attention: Legal Department- Derivatives Practice Group

270 Park Avenue, 41st Floor
New York, New York 10017-2070
Facsimile No.: (212) 270-3625

Address for notices or communications to **Party B:**

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95648
Attn: Executive Director
Phone: 916-774-5320
Fax: 916-746-1220

(b) **Process Agent.** For the purpose of Section 13(c) of this Agreement:

Party A's Process Agent: Not Applicable.
Party B's Process Agent: Not Applicable.

(c) **Offices.** The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party**. Neither Party A nor Party B is a Multibranch Party.

(e) **Calculation Agent.** The Calculation Agent is Party A unless Party A is the Defaulting Party or Affected Party in which case Party B will be the Calculation Agent. Provided, however, that if a calculation or determination is disputed by the party who is not the Calculation Agent, the parties shall first endeavor to resolve such dispute and, if they are unable to do so within a commercially reasonable time, they shall mutually select a dealer in the applicable commodity or in swaps involving the applicable commodity to act as Calculation Agent with respect to the issue in dispute. The failure of a party to perform its obligations as a Calculation Agent hereunder shall not be construed as an Event of Default or Termination Event.

(f) **Credit Support Document(s):**

(i) With respect to Party A, the Credit Support Annex attached hereto, which constitutes a Credit Support Document, is incorporated by reference in, and made part of, the Agreement and each Confirmation as if set forth in full in the Agreement or such Confirmation.

(ii) With respect to Party B, none.

(g) **Credit Support Provider(s):**

(i) With respect to Party A, none.

(ii) With respect to Party B, none.

(h) **Governing Law.**

(i) This Agreement will be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine) except that the powers of Party B shall be as provided under the laws of the State of California.

(i) **Waiver of Jury Trial.** Section 13 of this Agreement is hereby amended to add the following as a new Section 13(e) of this Agreement:

WAIVER OF JURY TRIAL. EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY CREDIT SUPPORT DOCUMENT. EACH PARTY CERTIFIES THAT THE OTHER PARTY HAS NOT REPRESENTED THAT IT WOULD NOT ENFORCE THE FOREGOING WAIVER OF JURY TRIAL IF A DISPUTE ARISES. EACH PARTY ACKNOWLEDGES THAT THE OTHER PARTY HAS RELIED ON THE FOREGOING WAIVER OF JURY TRIAL IN ENTERING INTO THIS AGREEMENT. [Note: language is OK, but please note that a recent California case provides that California entities can not waive their rights to a jury trial.]

(j) **Netting of Payments.** Sub-paragraph (ii) of Section 2(c) will not apply.

(k) **"Affiliate"** will have the meaning specified in Section 14 of this Agreement.

Part 5
OTHER PROVISIONS

(a) **Absence of Litigation.** Section 3(c) of this Agreement is hereby amended by: (i) adding in the second line thereof after the word "governmental" the words "or regulatory" and (ii) adding the words "in any material respect" immediately prior to the end of the section.

(b) **Financial Statements.** Section 3(d) is hereby amended by adding in the third line thereof after the word "respect" and before the period:

"or, in the case of financial statements, a fair presentation in accordance with the accounting principals followed by the relevant party of the financial condition of the relevant party".

(c) **Additional Representations.** Section 3 of this Agreement is hereby amended by adding at the end thereof the following Subparagraphs (g), (h), and (i):

(g) **Eligible Contract Participant.** It is an "eligible contract participant" within the meaning of Section 1a(12) of the Commodity Exchange Act, as amended.

(h) **Standardization, Creditworthiness, and Transferability.** The economic terms of this Agreement, any Credit Support Document to which it is a party, and each Transaction have been individually tailored and negotiated by it; it has received and reviewed financial information concerning the other party and has had a reasonable opportunity to ask questions of and receive answers and information from the other party concerning such other party, this Agreement, such Credit Support Document, and such Transaction; the creditworthiness of the other party was a material

consideration in its entering into or determining the terms of this Agreement, such Credit Support Document, and such Transaction; and the transferability of this Agreement, such Credit Support Document, and such Transaction is restricted as provided herein and therein.

(i) **No Reliance.** In connection with the negotiation of, the entering into, and the confirming of the execution of, this Agreement, any Credit Support Document to which it is a party, and each Transaction: (i) it is acting as principal (and not as agent or in any other capacity, fiduciary or otherwise); (ii) the other party is not acting as a fiduciary or financial or investment advisor for it; (iii) it is not relying upon any representations (whether written or oral) of the other party other than the representations expressly set forth in this Agreement and in such Credit Support Document; (iv) the other party has not given to it (directly or indirectly through any other person) any advice, counsel, assurance, guaranty, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence, or benefit (either legal, regulatory, tax, financial, accounting, or otherwise) of this Agreement, such Credit Support Document, or such Transaction; (v) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary, and not upon any view expressed by the other party; (vi) all trading decisions have been the result of arm's length negotiations between the parties; and (vii) it is entering into this Agreement, such Credit Support Document, and such Transaction with a full understanding of all of the risks hereof and thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

(d) **Reference Market-makers.** The definition of "Reference Market-makers" in Section 14 of this Agreement is hereby amended by: (i) deleting "(a)" from the second line thereof, (ii) deleting in the third line thereof after the word "credit" the words "and (b) to the extent practicable, from among such dealers having an office in the same city" and (iii) replacing such words with the words "or to enter into transactions similar in nature to Transactions."

(e) **ISDA Definitions.** Unless otherwise specified in a Confirmation, this Agreement, each Confirmation and each Transaction incorporates, and is subject to and governed by the 2000 ISDA Definitions, the 2005 ISDA Commodity Derivatives Definitions, the 1996 ISDA Equity Derivatives Definitions, the 1997 ISDA Government Bond Option Definitions, the 1998 ISDA FX and Currency Option Definitions all as amended, supplemented, updated, and restated from time to time (collectively, the "Definitions").

(f) **Inconsistency.** In the event of any inconsistency between the provisions of this Agreement and the Definitions, this Agreement will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Agreement or the Definitions, such Confirmation will prevail for the purpose of the relevant Transaction.

(g) **[RESERVED]**

(h) **Set Off.**

(i) Without affecting the provisions of this Agreement requiring the calculation of certain net payment amounts, all payments under this Agreement will be made without setoff or counterclaim; provided, however, that upon the designation or deemed designation of an Early Termination Date, in addition to any rights of setoff a party may have as a matter of law or otherwise, the non-Defaulting Party or non-Affected party (in either case, "X") may without prior notice set off any sum or obligation (whether or not arising under this Agreement, whether or not matured, whether or not contingent and regardless of the currency, place of payment or booking office of the obligation) owed or due by the Defaulting Party or Affected Party (in either case, "Y") to X against any sum or obligation (whether or not arising under this Agreement, whether or not matured, whether or not contingent and regardless of the currency, place of payment or booking office of the obligation) owed or due by X or any Affiliate of X (the "Original Obligation") to Y [Note: What is intended by defining "Original Obligation"?].

(ii) For the purposes of cross-currency set-off, X may convert any obligation to another currency at a market rate determined by X.

(iii) If an obligation is unascertained, X may in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

(i) **Limitation of Rate.** Notwithstanding any provision to the contrary contained in this Agreement, in no event shall the Default Rate, Non-default Rate, or Termination Rate exceed the Highest Lawful Rate. For purposes hereof, "Highest Lawful Rate" shall mean, with respect to each party, the maximum non-usurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged, or received on the subject indebtedness under the law applicable to such party.

(j) **LIMITATION OF LIABILITY. WITH RESPECT TO CLAIMS UNDER THIS AGREEMENT, NO PARTY SHALL BE REQUIRED TO PAY OR BE LIABLE FOR EXEMPLARY, PUNITIVE, INCIDENTAL, CONSEQUENTIAL, OR INDIRECT DAMAGES (WHETHER OR NOT ARISING FROM ITS NEGLIGENCE) TO ANY OTHER PARTY EXCEPT TO THE EXTENT THAT THE PAYMENTS REQUIRED TO BE MADE PURSUANT TO THIS AGREEMENT ARE DEEMED TO BE SUCH DAMAGES.**

IF AND TO THE EXTENT ANY PAYMENT REQUIRED TO BE MADE PURSUANT TO THIS AGREEMENT IS DEEMED TO CONSTITUTE LIQUIDATED DAMAGES, THE PARTIES ACKNOWLEDGE AND AGREE THAT SUCH DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE AND THAT SUCH PAYMENT IS INTENDED TO BE A REASONABLE APPROXIMATION OF THE AMOUNT OF SUCH DAMAGES AND NOT A PENALTY.

(k) **Procedures for Entering into Transactions.** On or promptly following the date on which the parties reach agreement on the terms of a Transaction, as contemplated by the first sentence of Section 9(e)(ii), Party A will send to Party B a Confirmation. Party B will promptly thereafter confirm the accuracy of (in the manner required by Section 9(e)(ii)), or request the correction of, such Confirmation (in the later case, indicating how it believes the terms of such Confirmation should be correctly stated and such other terms which should be added to or deleted from such Confirmation to make it correct). If any disputes shall arise as to whether an error exists in a Confirmation, the parties shall resolve the dispute in good faith. If Party B has not accepted or disputed the Confirmation in the manner set forth above within three (3) Local Business Days after it was sent to Party B, the Confirmation shall be deemed binding as sent, absent manifest error.

However, notwithstanding the foregoing, in the event that any Confirmation for any Transaction contains provisions not relating to the commercial terms of the Transaction, which modify or supplement the general terms and conditions of this Agreement, such provisions shall not be deemed accepted unless agreed to in writing by the parties. Failure to send or to return an executed Confirmation or any objection regarding a Confirmation by either party shall not invalidate the Transaction agreed to by the parties.

(l) **Security and Source of Payments of Party B**. The payment obligations of Party B with respect to any Transaction shall be special obligations of the Party B payable solely from, and secured as to the payment thereof solely by a pledge of, the Trust Estate. The Trust Estate is hereby pledged and assigned to secure the payment obligations of Party B with respect to the Transactions in accordance with their terms, subject only to the provisions of the Trust Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Indenture. The Trust Estate hereby pledged and assigned shall immediately be subject to the lien of this pledge without any further physical delivery thereof or other further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against Party B, irrespective of whether such parties have notice thereof, but the payment obligations of Party B with respect to the Transactions from the Trust Estate shall in all respects be junior and subordinate to the payment of the Bonds from the Trust Estate pursuant to the Trust Indenture, and the pledge of the Trust Estate hereunder to secure the payment obligations of Party B with respect to the Transactions shall in all respects be junior and subordinate to the pledge of the Trust Estate under the Indenture to secure the payment of the Bonds.

(m) **Consent to Recording.** The parties agree to amend Section 9 by adding a new Section 9(h) as follows:

(h) **Consent to Recording**. The parties agree that each may electronically record all telephone conversations between them regarding any Transaction and the terms thereof, with or without the use of a warning tone, and that any such recordings may be submitted in evidence to any court or in any Proceeding for the purpose of establishing the formation or existence of any Transaction and the terms thereof. Each party hereby consents to such recording and agrees to obtain any necessary consent to, and provide notice of such recording to, its personnel.

(n) **Additional Representations of Party B.** Party B hereby further represents and warrants to Party A that its obligations to make payments to Party A under this Agreement (a) are not subject to appropriation or similar action and (b) do not (1) constitute any kind of indebtedness of Party B or (2) create any kind of lien on or security interest in any of property or revenues of Party B that, in either case (1) or (2), is proscribed by any provision of the constitutional or charter documents of Party B, statutes, regulations, laws or approvals applicable to Party B, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets.

(o) **Termination of Agreement.** If no Transactions are (or any present or future obligations, contingent or otherwise, thereunder) outstanding under this Agreement, either party may terminate this Agreement upon thirty (30) days advance written notice to the other party.

(p) **Severability.** If any one or more of the provisions contained in this Agreement should be held invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations, to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(q) **Method of Notice.** Section 12(a)(ii) of the Master Agreement is deleted in its entirety.

(r) **Negative Covenants.** Party B agrees that so long as it shall have any obligations hereunder it shall not, directly or indirectly:

(i) amend or modify, or consent to the amendment or modification of, or permit an assignment or waiver of any of the rights or duties of any party under, the Trust Indenture, the Supply Agreement or the Customer Insurance Policy that would in any way materially adversely affect (a) the rights of or benefits to be derived by Party A thereunder or hereunder or (b) the obligations of Party B under this Agreement; or

(ii) without the prior written consent of Party A, create or incur, or suffer or permit to be created or incurred or to exist, any mortgage, lien, charge, or encumbrance on or pledge of the Trust Estate in part or whole except as permitted by the terms of the Trust Indenture.

(s) **Additional Agreement.** Section 4 of the Agreement is hereby further amended by adding the following new subsection "(f)" thereto:

"(f) ***Compliance with Trust Indenture.*** Party B will observe, perform and fulfill the obligations in Section 5.06 and Article VII of the Trust Indenture as the same are in effect on the date of this Agreement, as those provisions may be amended, supplemented or modified for purposes of this Agreement with the prior written consent of Party A (the "Incorporated Provisions")with the effect that Party A will have the benefit of each of the Incorporated Provisions (including without limitation, covenants, right to consent to certain actions subject to consent under the Trust Indenture and delivery of financial statements and other notices and information). In the event the Trust Indenture ceases to be in effect prior to the termination of this Agreement, the Incorporated Provisions (other than those provisions requiring

payments in respect of bonds, notes, warrants or other similar instruments issued under the Trust Indenture) will remain in full force and effect for purposes of this Agreement as though set forth herein until such date on which all of the obligations of Party B under this Agreement have been fully satisfied. The Incorporated Provisions are hereby incorporated by reference and made a part of this Agreement to the same extent as if such provisions were set forth herein. For purposes of this Agreement, the Incorporated Provisions shall be construed as though (i) all references therein to any party making loans, extensions of credit or financial accommodations thereunder or commitments therefor (the "Financings") were to Party A and (ii) to the extent that such Incorporated Provisions are conditioned on or relate to the existence of such Financings or Party B having any obligations in connection therewith, all references to such Financings or obligations were to the obligations of Party B under this Agreement. Any amendment, supplement, modification or waiver of any of the Incorporated Provisions without the prior written consent of Party A shall have no force and effect with respect to this Agreement. Any amendment, supplement or modification for which such consent is obtained shall be part of the Incorporated Provisions for purposes of this Agreement."

(t) **Definitions**. Section 14 of this Agreement is hereby amended to add or amend the following definitions in their appropriate alphabetical order:

"Bonds" shall mean the Gas Revenue Bonds, Series 2007 issued by Party B.

"Trust Estate" shall have the meaning given such term in the Trust Indenture.

"Trust Indenture" shall mean that certain Trust Indenture, dated as of February 1, 2007, between Party B and the Trustee, as the same may be amended and supplemented, pursuant to which Party B issued the Bonds.

"Trustee" means The Bank of New York Trust Company, N.A. as trustee under the Trust Indenture and any successor trustee under the Trust Indenture.

(u) **Limited Obligations**. The obligations of Party B are special obligations of Party B payable solely out of the funds available therefore under the Trust Indenture.

Part 6
ADDITIONAL PROVISIONS FOR COMMODITY DERIVATIVE TRANSACTIONS

(a) **The "Market Disruption Events"** specified in Section 7.4(d)(i) of the Commodity Definitions shall apply, except as otherwise specifically provided in the Confirmation.

(b) **"Additional Market Disruption Events"** shall apply only if so specified in the relevant Confirmation.

In Witness Whereof the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

In Witness Whereof the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

JPMORGAN CHASE BANK,
NATIONAL ASSOCIATION

By: Mah Lenczowski
Name: Mark Lenczowski
Title: Vice President
Date: Jan. 24, 2007

ROSEVILLE NATURAL GAS
FINANCING AUTHORITY

By: W. Craig Robinson
Name:
Title:
Date:

ISDA

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

ISDA Master Agreement

dated as of January 24, 2007

between

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION		ROSEVILLE NATURAL GAS FINANCING AUTHORITY
.....	and	.....
("Party A")		("Party B")

This Annex supplements, forms part of, and is subject to, the above-referenced Agreement, is part of its Schedule and is a Credit Support Document under this Agreement with respect to each party.

Accordingly, the parties agree as follows:

Paragraph 1. Interpretation

(a) ***Definitions and Inconsistency.*** Capitalized terms not otherwise defined herein or elsewhere in this Agreement have the meanings specified pursuant to Paragraph 12, and all references in this Annex to Paragraphs are to Paragraphs of this Annex. In the event of any inconsistency between this Annex and the other provisions of this Schedule, this Annex will prevail, and in the event of any inconsistency between Paragraph 13 and the other provisions of this Annex, Paragraph 13 will prevail.

(b) ***Secured Party and Pledgor.*** All references in this Annex to the "Secured Party" will be to either party when acting in that capacity and all corresponding references to the "Pledgor" will be to the other party when acting in that capacity; provided, however, that if Other Posted Support is held by a party to this Annex, all references herein to that party as the Secured Party with respect to that Other Posted Support will be to that party as the beneficiary thereof and will not subject that support or that party as the beneficiary thereof to provisions of law generally relating to security interests and secured parties.

Paragraph 2. Security Interest

Each party, as the Pledgor, hereby pledges to the other party, as the Secured Party, as security for its Obligations, and grants to the Secured Party a first priority continuing security interest in, lien on and right of Set-off against all Posted Collateral Transferred to or received by the Secured Party hereunder. Upon the Transfer by the Secured Party to the Pledgor of Posted Collateral, the security interest and lien granted hereunder on that Posted Collateral will be released immediately and, to the extent possible, without any further action by either party.

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Paragraph 3. Credit Support Obligations

(a) ***Delivery Amount*** Subject to Paragraphs 4 and 5, upon a demand made by the Secured Party on or promptly following a Valuation Date, if the Delivery Amount for that Valuation Date equals or exceeds the Pledgor's Minimum Transfer Amount, then the Pledgor will Transfer to the Secured Party Eligible Credit Support having a Value as of the date of Transfer at least equal to the applicable Delivery Amount (rounded pursuant to Paragraph 13). Unless otherwise specified in Paragraph 13, the "Delivery Amount" applicable to the Pledgor for any Valuation Date will equal the amount by which:

(i) the Credit Support Amount

exceeds

(ii) the Value as of that Valuation Date of all Posted Credit Support held by the Secured Party.

(b) ***Return Amount*** Subject to Paragraphs 4 and 5, upon a demand made by the Pledgor on or promptly following a Valuation Date, if the Return Amount for that Valuation Date equals or exceeds the Secured Party's Minimum Transfer Amount, then the Secured Party will Transfer to the Pledgor Posted Credit Support specified by the Pledgor in that demand having a Value as of the date of Transfer as close as practicable to the applicable Return Amount (rounded pursuant to Paragraph 13). Unless otherwise specified in Paragraph 13, the "Return Amount" applicable to the Secured Party for any Valuation Date will equal the amount by which:

(i) the Value as of that Valuation Date of all Posted Credit Support held by the Secured Party

exceeds

(ii) the Credit Support Amount.

"Credit Support Amount" means, unless otherwise specified in Paragraph 13, for any Valuation Date (i) the Secured Party's Exposure for that Valuation Date plus (ii) the aggregate of all Independent Amounts applicable to the Pledgor, if any, minus (iii) all Independent Amounts applicable to the Secured Party, if any, minus (iv) the Pledgor's Threshold; provided, however, that the Credit Support Amount will be deemed to be zero whenever the calculation of Credit Support Amount yields a number less than zero.

Paragraph 4. Conditions Precedent, Transfer Timing, Calculations and Substitutions

(a) ***Conditions Precedent.*** Each Transfer obligation of the Pledgor under Paragraphs 3 and 5 and of the Secured Party under Paragraphs 3, 4(d)(ii), 5 and 6(d) is subject to the conditions precedent that:

(i) no Event of Default, Potential Event of Default or Specified Condition has occurred and is continuing with respect to the other party; and

(ii) no Early Termination Date for which any unsatisfied payment obligations exist has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the other party.

(b) ***Transfer Timing.*** Subject to Paragraphs 4(a) and 5 and unless otherwise specified, if a demand for the Transfer of Eligible Credit Support or Posted Credit Support is made by the Notification Time, then the relevant Transfer will be made not later than the close of business on the next Local Business Day; if a demand is made after the Notification Time, then the relevant Transfer will be made not later than the close of business on the second Local Business Day thereafter.

(c) ***Calculations.*** All calculations of Value and Exposure for purposes of Paragraphs 3 and 6(d) will be made by the Valuation Agent as of the Valuation Time. The Valuation Agent will notify each party (or the other party, if the Valuation Agent is a party) of its calculations not later than the Notification Time on the Local Business Day following the applicable Valuation Date (or in the case of Paragraph 6(d), following the date of calculation).

(d) ***Substitutions.***

(i) Unless otherwise specified in Paragraph 13, upon notice to the Secured Party specifying the items of Posted Credit Support to be exchanged, the Pledgor may, on any Local Business Day, Transfer to the Secured Party substitute Eligible Credit Support (the "Substitute Credit Support"); and

(ii) subject to Paragraph 4(a), the Secured Party will Transfer to the Pledgor the items of Posted Credit Support specified by the Pledgor in its notice not later than the Local Business Day following the date on which the Secured Party receives the Substitute Credit Support, unless otherwise specified in Paragraph 13 (the "Substitution Date"); provided that the Secured Party will only be obligated to Transfer Posted Credit Support with a Value as of the date of Transfer of that Posted Credit Support equal to the Value as of that date of the Substitute Credit Support.

Paragraph 5. Dispute Resolution

If a party (a "Disputing Party") disputes (I) the Valuation Agent's calculation of a Delivery Amount or a Return Amount or (II) the Value of any Transfer of Eligible Credit Support or Posted Credit Support, then (1) the Disputing Party will notify the other party and the Valuation Agent (if the Valuation Agent is not the other party) not later than the close of business on the Local Business Day following (X) the date that the demand is made under Paragraph 3 in the case of (1) above or (Y) the date of Transfer in the case of (II) above, (2) subject to Paragraph 4(a), the appropriate party will Transfer the undisputed amount to the other party not later than the close of business on the Local Business Day following (X) the date that the demand is made under Paragraph 3 in the case of (I) above or (Y) the date of Transfer in the case of (II) above, (3) the parties will consult with each other in an attempt to resolve the dispute and (4) if they fail to resolve the dispute by the Resolution Time, then:

(i) In the case of a dispute involving a Delivery Amount or Return Amount, unless otherwise specified in Paragraph 13, the Valuation Agent will recalculate the Exposure and the Value as of the Recalculation Date by:

(A) utilizing any calculations of Exposure for the Transactions (or Swap Transactions) that the parties have agreed are not in dispute;

(B) calculating the Exposure for the Transactions (or Swap Transactions) in dispute by seeking four actual quotations at mid-market from Reference Market-makers for purposes of calculating Market Quotation, and taking the arithmetic average of those obtained; provided that if four quotations are not available for a particular Transaction (or Swap Transaction), then fewer than four quotations may be used for that Transaction (or Swap Transaction); and if no quotations are available for a particular Transaction (or Swap Transaction), then the Valuation Agent's original calculations will be used for that Transaction (or Swap Transaction); and

(C) utilizing the procedures specified in Paragraph 13 for calculating the Value, if disputed, of Posted Credit Support.

(ii) In the case of a dispute involving the Value of any Transfer of Eligible Credit Support or Posted Credit Support, the Valuation Agent will recalculate the Value as of the date of Transfer pursuant to Paragraph 13.

Following a recalculation pursuant to this Paragraph, the Valuation Agent will notify each party (or the other party, if the Valuation Agent is a party) not later than the Notification Time on the Local Business Day following the Resolution Time. The appropriate party will, upon demand following that notice by the Valuation Agent or a resolution pursuant to (3) above and subject to Paragraphs 4(a) and 4(b), make the appropriate Transfer.

Paragraph 6. Holding and Using Posted Collateral

(a) ***Care of Posted Collateral.*** Without limiting the Secured Party's rights under Paragraph 6(c), the Secured Party will exercise reasonable care to assure the safe custody of all Posted Collateral to the extent required by applicable law, and in any event the Secured Party will be deemed to have exercised reasonable care if it exercises at least the same degree of care as it would exercise with respect to its own property. Except as specified in the preceding sentence, the Secured Party will have no duty with respect to Posted Collateral, including, without limitation, any duty to collect any Distributions, or enforce or preserve any rights pertaining thereto.

(b) ***Eligibility to Hold Posted Collateral; Custodians.***

(i) ***General.*** Subject to the satisfaction of any conditions specified in Paragraph 13 for holding Posted Collateral, the Secured Party will be entitled to hold Posted Collateral or to appoint an agent (a "Custodian") to hold Posted Collateral for the Secured Party. Upon notice by the Secured Party to the Pledgor of the appointment of a Custodian, the Pledgor's obligations to make any Transfer will be discharged by making the Transfer to that Custodian. The holding of Posted Collateral by a Custodian will be deemed to be the holding of that Posted Collateral by the Secured Party for which the Custodian is acting.

(ii) ***Failure to Satisfy Conditions.*** If the Secured Party or its Custodian fails to satisfy any conditions for holding Posted Collateral, then upon a demand made by the Pledgor, the Secured Party will, not later than five Local Business Days after the demand, Transfer or cause its Custodian to Transfer all Posted Collateral held by it to a Custodian that satisfies those conditions or to the Secured Party if it satisfies those conditions.

(iii) ***Liability.*** The Secured Party will be liable for the acts or omissions of its Custodian to the same extent that the Secured Party would be liable hereunder for its own acts or omissions.

(c) ***Use of Posted Collateral.*** Unless otherwise specified in Paragraph 13 and without limiting the rights and obligations of the parties under Paragraphs 3, 4(d)(ii), 5, 6(d) and 8, if the Secured Party is not a Defaulting Party or an Affected Party with respect to a Specified Condition and no Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Secured Party, then the Secured Party will, notwithstanding Section 9-207 of the New York Uniform Commercial Code, have the right to:

(i) sell, pledge, rehypothecate, assign, invest, use, commingle or otherwise dispose of, or otherwise use in its business any Posted Collateral it holds, free from any claim or right of any nature whatsoever of the Pledgor, including any equity or right of redemption by the Pledgor; and

(ii) register any Posted Collateral in the name of the Secured Party, its Custodian or a nominee for either.

For purposes of the obligation to Transfer Eligible Credit Support or Posted Credit Support pursuant to Paragraphs 3 and 5 and any rights or remedies authorized under this Agreement, the Secured Party will be deemed to continue to hold all Posted Collateral and to receive Distributions made thereon, regardless of whether the Secured Party has exercised any rights with respect to any Posted Collateral pursuant to (i) or (ii) above.

(d) ***Distributions and Interest Amount***

(i) ***Distributions.*** Subject to Paragraph 4(a), if the Secured Party receives or is deemed to receive Distributions on a Local Business Day, it will Transfer to the Pledgor not later than the following Local Business Day any Distributions it receives or is deemed to receive to the extent that a Delivery Amount would not be created or increased by that Transfer, as calculated by the Valuation Agent (and the date of calculation will be deemed to be a Valuation Date for this purpose).

(ii) ***Interest Amount.*** Unless otherwise specified in Paragraph 13 and subject to Paragraph 4(a), in lieu of any interest, dividends or other amounts paid or deemed to have been paid with respect to Posted Collateral in the form of Cash (all of which may be retained by the Secured Party), the Secured Party will Transfer to the Pledgor at the times specified in Paragraph 13 the Interest Amount to the extent that a Delivery Amount would not be created or increased by that Transfer, as calculated by the Valuation

Agent (and the date of calculation will be deemed to be a Valuation Date for this purpose). The Interest Amount or portion thereof not Transferred pursuant to this Paragraph will constitute Posted Collateral in the form of Cash and will be subject to the security interest granted under Paragraph 2.

Paragraph 7. Events of Default

For purposes of Section 5(a)(iii)(1) of this Agreement, an Event of Default will exist with respect to a party if

(i) that party fails (or fails to cause its Custodian) to make, when due, any Transfer of Eligible Collateral, Posted Collateral or the Interest Amount, as applicable, required to be made by it and that failure continues for two Local Business Days after notice of that failure is given to that party;

(ii) that party falls to comply with any restriction or prohibition specified in this Annex with respect to any of the rights specified in Paragraph 6(c) and that failure continues for five Local Business Days after notice of that failure is given to that party; or

(iii) that party fails to comply with or perform any agreement or obligation other than those specified in Paragraphs 7(i) and 7(ii) and that failure continues for 30 days after notice of that failure is given to that party.

Paragraph 8. Certain Rights and Remedies

(a) ***Secured Party's Rights and Remedies.*** If at any time (1) an Event of Default or Specified Condition with respect to the Pledgor has occurred and is continuing or (2) an Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Pledgor, then, unless the Pledgor has paid in full all of its Obligations that are then due, the Secured Party may exercise one or more of the following rights and remedies:

(i) all rights and remedies available to a secured party under applicable law with respect to Posted Collateral held by the Secured Party;

(ii) any other rights and remedies available to the Secured Party under the terms of Other Posted Support, if any;

(iii) the right to Set-off any amounts payable by the Pledgor with respect to any Obligations against any Posted Collateral or the Cash equivalent of any Posted Collateral held by the Secured Party (or any obligation of the Secured Party to Transfer that Posted Collateral); and

(iv) the right to liquidate any Posted Collateral held by the Secured Party through one or more public or private sales or other dispositions with such notice, if any, as may be required under applicable law, free from any claim or right of any nature whatsoever of the Pledgor, including any equity or right of redemption by the Pledgor (with the Secured Party having the right to purchase any or all of the Posted Collateral to be sold) and to apply the proceeds (or the Cash equivalent thereof) from the liquidation of the Posted Collateral to any amounts payable by the Pledgor with respect to any Obligations in that order as the Secured Party may elect.

Each party acknowledges and agrees that Posted Collateral in the form of securities may decline speedily in value and is of a type customarily sold on a recognized market, and, accordingly, the Pledgor is not entitled to prior notice of any sale of that Posted Collateral by the Secured Party, except any notice that is required under applicable law and cannot be waived.

(b) ***Pledgor's Rights and Remedies.*** If at any time an Early Termination Date has occurred or been designated as the result of an Event of Default or Specified Condition with respect to the Secured Party, then (except in the case of an Early Termination Date relating to less than all Transactions (or Swap Transactions) where the Secured Party has paid in full all of its obligations that are then due under Section 6(e) of this Agreement):

(i) the Pledgor may exercise all rights and remedies available to a pledgor under applicable law with respect to Posted Collateral held by the Secured Party;

(ii) the Pledgor may exercise any other rights and remedies available to the Pledgor under the terms of Other Posted Support, if any;

(iii) the Secured Party will be obligated immediately to Transfer all Posted Collateral and the Interest Amount to the Pledgor; and

(iv) to the extent that Posted Collateral or the Interest Amount is not so Transferred pursuant to (iii) above, the Pledgor may:

(A) Set-off any amounts payable by the Pledgor with respect to any Obligations against any Posted Collateral or the Cash equivalent of any Posted Collateral held by the Secured Party (or any obligation of the Secured Party to Transfer that Posted Collateral); and
(B) to the extent that the Pledgor does not Set-off under (iv)(A) above, withhold payment of any remaining amounts payable by the Pledgor with respect to any Obligations, up to the Value of any remaining Posted Collateral held by the Secured Party, until that Posted Collateral is Transferred to the Pledgor.

(c) ***Deficiencies and Excess Proceeds.*** The Secured Party will Transfer to the Pledgor any proceeds and Posted Credit Support remaining after liquidation, Set-off and/or application under Paragraphs 8(a) and 8(b) after satisfaction in full of all amounts payable by the Pledgor with respect to any Obligations; the Pledgor in all events will remain liable for any amounts remaining unpaid after any liquidation, Set-off and/or application under Paragraphs 8(a) and 8(b).

(d) ***Final Returns.*** When no amounts are or thereafter may become payable by the Pledgor with respect to any Obligations (except for any potential liability under Section 2(d) of this Agreement), the Secured Party will Transfer to the Pledgor all Posted Credit Support and the Interest Amount, if any.

Paragraph 9. Representations

Each party represents to the other party (which representations will be deemed to be repeated as of each date on which it, as the Pledgor, Transfers Eligible Collateral) that:

(i) it has the power to grant a security interest in and lien on any Eligible Collateral it Transfers as the Pledgor and has taken all necessary actions to authorize the -granting of that security interest and lien;

(ii) it is the sole owner of or otherwise has the right to Transfer all Eligible Collateral it Transfers to the Secured Party hereunder, free and clear of any security interest, lien, encumbrance or other restrictions other than the security interest and lien granted under Paragraph 2;

(iii) upon the Transfer of any Eligible Collateral to the Secured Party under the terms of this Annex, the Secured Party will have a valid and perfected first priority security interest therein (assuming that any central clearing corporation or any third-party financial intermediary or other entity not within the control of the Pledgor involved in the Transfer of that Eligible Collateral gives the notices and takes the action required of it under applicable law for perfection of that interest); and

(iv) the performance by it of its obligations under this Annex will not result in the creation of any security interest, lien or other encumbrance on any Posted Collateral other than the security interest and lien granted under Paragraph 2.

Paragraph 10. Expenses

(a) ***General.*** Except as otherwise provided in Paragraphs 10(b) and 10(c), each party will pay its own costs and expenses in connection with performing its obligations under this Annex and neither party will be liable for any costs and expenses incurred by the other party in connection herewith.

(b) ***Posted Credit Support.*** The Pledgor will promptly pay when due all taxes, assessments or charges of any nature that are imposed with respect to Posted Credit Support held by the Secured Party upon becoming aware of the same, regardless of whether any portion of that Posted Credit Support is subsequently disposed of under Paragraph 6(c), except for those taxes, assessments and charges that result from the exercise of the Secured Party's rights under Paragraph 6(c).

(c) ***Liquidation/Application of Posted Credit Support.*** All reasonable costs and expenses incurred by or on behalf of the Secured Party or the Pledgor in connection with the liquidation and/or application of any Posted Credit Support under Paragraph 8 will be payable, on demand and pursuant to the Expenses Section of this Agreement, by the Defaulting Party or, if there is no Defaulting Party, equally by the parties.

Paragraph 11. Miscellaneous

(a) ***Default Interest.*** A Secured Party that fails to make, when due, any Transfer of Posted Collateral or the Interest Amount will be obligated to pay the Pledgor (to the extent permitted under applicable law) an amount equal to interest at the Default Rate multiplied by the Value of the items of property that were required to be Transferred, from (and including) the date that Posted Collateral or Interest Amount was required to be Transferred to (but excluding) the date of Transfer of that Posted Collateral or Interest Amount. This interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(b) ***Further Assurances.*** Promptly following a demand made by a party, the other party will execute, deliver, file and record any financing statement, specific assignment or other document and take any other action that may be necessary or desirable and reasonably requested by that party to create, preserve, perfect or validate any security interest or lien granted under Paragraph 2, to enable that party to exercise or enforce its rights under this Annex with respect to Posted Credit Support or an Interest Amount or to effect or document a release of a security interest on Posted Collateral or an Interest Amount.

(c) ***Further Protection.*** The Pledgor will promptly give notice to the Secured Party of, and defend against, any suit, action, proceeding or lien that involves Posted Credit Support Transferred by the Pledgor or that could adversely affect the security interest and lien granted by it under Paragraph 2, unless that suit, action, proceeding or lien results from the exercise of the Secured Parry's rights under Paragraph 6(c).

(d) ***Good Faith and Commercially Reasonable Manner.*** Performance of all obligations under this Annex, including, but not limited to, all calculations, valuations and determinations made by either party, will be made in good faith and in a commercially reasonable manner.

(e) ***Demands and Notices.*** All demands and notices made by a party under this Annex will be made as specified in the Notices Section of this Agreement, except as otherwise provided in Paragraph 13.

(f) ***Specifications of Certain Matters.*** Anything referred to in this Annex as being specified in Paragraph 13 also may be specified in one or more Confirmations or other documents and this Annex will be construed accordingly.

Paragraph 12. Definitions

As used in this Annex:

"Cash" means the lawful currency of the United States of America.

"Credit Support Amount" has the meaning specified in Paragraph 3.

"Custodian" has the meaning specified in Paragraphs 6(b)(i) and 13.

"Delivery Amount" has the meaning specified in Paragraph 3(a).

"Disputing Party" has the meaning specified in Paragraph 5.

"Distributions" means with respect to Posted Collateral other than Cash, all principal, interest and other payments and distributions of cash or other property with respect thereto, regardless of whether the Secured Party has disposed of that Posted Collateral under Paragraph 6(c). Distributions will not include any item of property acquired by the Secured Party upon any disposition or liquidation of Posted Collateral or, with respect to any Posted Collateral in the form of Cash, any distributions on that collateral, unless otherwise specified herein.

"Eligible Collateral" means, with respect to a party, the items, if any, specified as such for that party in Paragraph 13.

"Eligible Credit Support" means Eligible Collateral and Other Eligible Support.

"Exposure" means for any Valuation Date or other date for which Exposure is calculated and subject to Paragraph 5 in the case of a dispute, the amount, if any, that would be payable to a party that is the Secured Party by the other party (expressed as a positive number) or by a party that is the Secured Party to the other party (expressed as a negative number) pursuant to Section 6(e)(ii)(2)(A) of this Agreement as if all Transactions (or Swap Transactions) were being terminated as of the relevant Valuation Time; provided that Market Quotation will be determined by the Valuation Agent using its estimates at mid-market of the amounts that would be paid for Replacement Transactions (as that term is defined in the definition of "Market Quotation").

"Independent Amount" means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

"Interest Amount" means, with respect to an Interest Period, the aggregate sum of the amounts of interest calculated for each day in that Interest Period on the principal amount of Posted Collateral in the form of Cash held by the Secured Party on that day, determined by the Secured Party for each such day as follows:

(x) the amount of that Cash on that day; multiplied by

(y) the Interest Rate in effect for that day; divided by

(z) 360.

"Interest Period" means the period from (and including) the last Local Business Day on which an Interest Amount was Transferred (or, if no Interest Amount has yet been Transferred, the Local Business Day on which Posted Collateral in the form of Cash was Transferred to or received by the Secured Party) to (but excluding) the Local Business Day on which the current Interest Amount is to be Transferred.

"Interest Rate" means the rate specified in Paragraph 13.

"Local Business Day", unless otherwise specified in Paragraph 13, has the meaning specified in the Definitions Section of this Agreement, except that references to a payment in clause (b) thereof will be deemed to include a Transfer under this Annex.

"Minimum Transfer Amount" means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

"Notification Time" has the meaning specified in Paragraph 13.

"Obligations" means, with respect to a party, all present and future obligations of that party under this Agreement and any additional obligations specified for that party in Paragraph 13.

"Other Eligible Support" means, with respect to a party, the items, if any, specified as such for that party in Paragraph 13.

"Other Posted Support" means all Other Eligible Support Transferred to the Secured Party that remains in effect for the benefit of that Secured Party.

"Pledgor" means either party, when that party (i) receives a demand for or is required to Transfer Eligible Credit Support under Paragraph 3(a) or (ii) has Transferred Eligible Credit Support under Paragraph 3(a).

"Posted Collateral" means all Eligible Collateral, other property, Distributions, and all proceeds thereof that have been Transferred to or received by the Secured Party under this Annex and not Transferred to the Pledgor pursuant to Paragraph 3(b), 4(d)(ii) or 6(d)(i) or released by the Secured Party under Paragraph 8. Any Interest Amount or portion thereof not Transferred pursuant to Paragraph 6(d)(ii) will constitute Posted Collateral in the form of Cash.

"Posted Credit Support" means Posted Collateral and Other Posted Support.

"Recalculation Date" means the Valuation Date that gives rise to the dispute under Paragraph 5; provided, however, that if a subsequent Valuation Date occurs under Paragraph 3 prior to the resolution of the dispute, then the "Recalculation Date" means the most recent Valuation Date under Paragraph 3.

"Resolution Time" has the meaning specified in Paragraph 13.

"Return Amount" has the meaning specified in Paragraph 3(b).

"Secured Party" means either party, when that party (i) makes a demand for or is entitled to receive Eligible Credit Support under Paragraph 3(a) or (ii) holds or is deemed to hold Posted Credit Support.

"Specified Condition" means, with respect to a party, any event specified as such for that party in Paragraph 13.

"Substitute Credit Support" has the meaning specified in Paragraph 4(d)(i).

"Substitution Date has the meaning specified in Paragraph 4(d)(ii).

"Threshold" means, with respect to a party, the amount specified as such for that party in Paragraph 13; if no amount is specified, zero.

"Transfer" means, with respect to any Eligible Credit Support, Posted Credit Support or Interest Amount, and in accordance with the instructions of the Secured Party, Pledgor or Custodian, as applicable:

(i) in the case of Cash, payment or delivery by wire transfer into one or more bank accounts specified by the recipient;

(ii) in the case of certificated securities that cannot be paid or delivered by book-entry, payment or delivery in appropriate physical form to the recipient or its account accompanied by any duly executed instruments of transfer, assignments in blank, transfer tax stamps and any other documents necessary to constitute a legally valid transfer to the recipient;

(iii) in the case of securities that can be paid or delivered by book-entry, the giving of written instructions to the relevant depository institution or other entity specified by the recipient, together with a written copy thereof to the recipient, sufficient if complied with to result in a legally effective transfer of the relevant interest to the recipient; and

(iv) in the case of Other Eligible Support or Other Posted Support, as specified in Paragraph 13.

"Valuation Agent" has the meaning specified in Paragraph 13.

" Valuation Date" means each date specified in or otherwise determined pursuant to Paragraph 13.

"Valuation Percentage" means, for any item of Eligible Collateral, the percentage specified in Paragraph 13.

" Valuation Time" has the meaning specified in Paragraph 13.

"Value" means for any Valuation Date or other date for which Value is calculated and subject to Paragraph 5 in the case of a dispute, with respect to:

(i) Eligible Collateral or Posted Collateral that is:

(A) Cash, the amount thereof, and

(B) a security, the bid price obtained by the Valuation Agent multiplied by the applicable Valuation Percentage, if any;

(ii) Posted Collateral that consists of items that are not specified as Eligible Collateral, zero; and

(iii) Other Eligible Support and Other Posted Support, as specified in Paragraph 13.

CREDIT SUPPORT ANNEX

to the Schedule to the
Master Agreement

dated as of January 24, 2007

between

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION ("Party A")	**and**	**ROSEVILLE NATURAL GAS FINANCING AUTHORITY ("Party B")**

Paragraph 13. Elections and Variables

(a) Security Interest for "Obligations". The term "Obligations" as used in this Annex includes no additional obligations with respect to either party.

(b) Credit Support Obligations.

(i) Delivery Amount, Return Amount and Credit Support Amount.

(A) "Delivery Amount" has the meaning specified in Paragraph 3(a).

(B) "Return Amount" has the meaning specified in Paragraph 3(b).

(C) "Credit Support Amount" means, for any Valuation Date, the product of (1) the sum of the Notional Quantities per Calculation Period for the prior Calculation Period, the current Calculation Period and the Calculation Period occurring immediately after such Valuation Date and (2) the Fixed Price (capitalized terms used in this definition but not defined in this Annex shall have the meaning given to them in the Confirmation dated as of January 24, 2007 between Party A and Party B.

(ii) Eligible Collateral. The following items will qualify as "Eligible Collateral":

	ISDA COLLATERAL ASSET DEFINITION (ICAD) CODE	REMAINING MATURITY FROM THE VALUATION DATE	VALUATION PERCENTAGE
(1)	US-CASH	Not applicable	100%
(2)	US-TBILL, US-TNOTE, US-TBOND, US-TIPS	Less than 1 year From 1 year, up to and including 5 years More than 5 years, up to and including 10 years More than 10 years	98% 95% 92% 90%
(3)	US-STRIP	All maturities	90%
(4)	US-GNMA, US-FNMA, US-FHLMC, US-NCAD, US-NCADN	Less than 1 year From 1 year, up to and including 5 years More than 5 years, up to and including 10 years More than 10 years	96% %93% 90% 88%
(5)	US-GNMAMBS, US-FNMAMBS, US-FHLMCMBS	Not applicable	90%

The definitions used in this Annex are taken from the ISDA publication "Collateral Asset Definitions" (First Edition – June 2003), and are set forth in Paragraph (l) of this Annex.

(iii) Other Eligible or Posted Support. There shall be no "Other Eligible Support" or "Other Posted Support" for either party for purposes of this Annex, unless agreed in writing between the parties.

(iv) Thresholds.

(A) "Independent Amount" shall not apply for purposes of this Annex.

(B) "Threshold" means, with respect to Party A, the amounts determined on the basis of the lowest of the Credit Ratings set forth in the following table, provided, however, that if (i) Party A has no Credit Rating, or (ii) an Event of Default has occurred and is continuing with respect to Party A, Party A's Threshold shall be U.S.$0:

CREDIT RATING (S&P / Moody's / Fitch)	THRESHOLD Party A
AA- / Aa3 / AA- and above	Infinite
A+ / A1 / A+ or below	$0.00 (zero)

"Threshold" means, with respect to Party B, Not Applicable.

As used herein:

"Credit Rating" means, with respect to a party, the rating assigned by either S&P, Moody's or Fitch to the long term, unsecured and unsubordinated indebtedness of such party, or, if applicable, the Credit Support Provider of such party.

"Moody's" shall mean Moody's Investors Service, Inc., or its successor.

"S&P" shall mean Standard & Poor's Ratings Group, or its successor.

"Fitch" shall mean Fitch Ratings, Inc., or its successor.

(C) "Minimum Transfer Amount" means, with respect to a party, U.S.$100,000, provided, however, that if an Event of Default has occurred and is continuing with respect to a party, the Minimum Transfer Amount with respect to such party shall be U.S.$0.

(D) Rounding. The Delivery Amount and the Return Amount will be rounded up and down to the nearest integral multiple of U.S.$10,000, respectively.

(c) Valuation and Timing.

(i) "Valuation Agent" means the party making the demand under Paragraph 3, unless there has occurred and is continuing any Event of Default, Potential Event of Default or Additional Termination Event with respect to such party, in which case the other party shall be the Valuation Agent.

(ii) "Valuation Date" means the Trade Date (as defined in the Confirmation) and thereafter the 25th day of each calendar month, provided that such day is a Local Business Day, and, if not, the immediately following Local Business Day.

(iii) "Valuation Time" means the close of business in the city of the Valuation Agent on the Local Business Day immediately preceding the Valuation Date or date of calculation, as applicable;

(iv) "Notification Time" means by 12:00 noon, New York time, on a Local Business Day.

(v) Events of Default. Paragraph 7(i) of the Credit Support Annex is hereby amended by deleting the word "two" in the third line thereof and replacing it with the word "one".

(d) Substitution.

(i) "Substitution Date" has the meaning specified in Paragraph 4(d)(ii).

(ii) Consent. Inapplicable.

(e) Dispute Resolution.

(i) "Resolution Time" means 12:00 noon, New York time, on the Local Business Day following the date on which notice is given that gives rise to a dispute under Paragraph 5.

(ii) Value. For the purpose of Paragraphs 5(i)(C) and 5(ii), the Value of Posted Credit Support other than US-Cash will be calculated as follows:

(A) with respect to any Eligible Collateral except US-Cash, the sum of (I) (x) the mean of the high bid and low asked prices quoted on such date by two principal market makers for such Eligible Collateral chosen by the non-Disputing Party, or (y) if no quotations are available from two principal market makers for such date, the mean of such high bid and low asked prices as of the first day prior to such date on which such quotations were available, plus (II) the accrued interest on such Eligible Collateral (except to the extent Transferred to a party pursuant to any applicable provision of this Agreement or included in the applicable price referred to in (I) of this clause (A)) as of such date; multiplied by the applicable Valuation Percentage.

(iii) The provisions of Paragraph 5 will apply.

(f) Holding and Using Posted Collateral.

(i) Eligibility to Hold Posted Collateral; Custodians.

Party B will be entitled to hold Posted Collateral itself or through a Custodian pursuant to Paragraph 6(b), provided that the following conditions applicable to it are satisfied:

(1) Party B is not a Defaulting Party.

(2) The Custodian is a Bank (as defined in the Federal Deposit Insurance Act) whose rating with respect to its long term unsecured, unsubordinated indebtedness is at least BBB+ by S&P or Baa1 by Moody's.

(ii) Use of Posted Collateral. The provisions of Paragraph 6(c) will not apply to both parties.

(g) Distributions and Interest Amount.

(i) Interest Rate. The Interest Rate for any day means the Federal Funds Overnight Rate. For the purposes hereof, "Federal Funds Overnight Rate" means, for any day, an interest rate per annum equal to the rate published as the Federal Funds Effective Rate that appears on Telerate Page 118 or on Bloomberg Page FEDL01 for such day.

(ii) Transfer of Interest Amount. The transfer of the Interest Amount will be made monthly on the second Local Business Day of each calendar month.

(iii) Alternative to Interest Amount. The provisions of Paragraph 6(d)(ii) will apply.

(h) Additional Representations. None.

(i) Demands and Notices.

(i) All demands, specifications and notices made by a party to this Annex will be made pursuant to the Notices Section of this Agreement, unless otherwise specified here:

With respect to Party A:

JPMorgan Chase Bank, National Association
Collateral Middle Office Americas 3/OPS2
500 Stanton Christiana Road
Newark, Delaware 19713
Telephone No.: (302) 634-3154
Facsimile No.: (302) 634-3270
Email: collateral_services@jpmorgan.com

With respect to Party B:

[Please provide address for notices if different from address in Schedule]

(ii) Section 12 of this Agreement shall be amended by inserting "or email" after "electronic messaging system" in the third line thereof, deleting "or" after clause (iv) thereof, and by adding the following clause (vi):

> "(vi) if sent by e-mail, on the date an acknowledgment of receipt is delivered,"

(j) Collateral Asset Definitions. As used in this Annex, the following definitions are specified below:

US-CASH - United States of America Dollar (USD) Cash.
The lawful currency of the United States of America.

US-TBILL - US Treasury Bills.
Negotiable debt obligations issued pursuant to USC Title 31, Chapter 31, Section 3104, or any successor statute, by the Department of the Treasury backed by the full faith and credit of the United States of America, having a maturity at issuance of no greater than 1 year.

US-TNOTE - US Treasury Notes.
Negotiable debt obligations issued pursuant to USC Title 31, Chapter 31, Section 3103 or any successor statute, by the Department of the Treasury backed by the full faith and credit of the United States of America, having a maturity at issuance of at least 1 year but less than 10 years.

US-TBOND - US Treasury Bonds.
Negotiable debt obligations issued pursuant to USC Title 31, Chapter 31, Section 3102 or any successor statute, by the Department of the Treasury backed by the full faith and credit of the United States of America.

US-TIPS - US Treasury Inflation Protected Issues (TIPS).
Securities issued by the Department of the Treasury backed by the full faith and credit of the United States of America where the principal is changed based on changes of the consumer price index.

US-STRIP - US Treasury Strips.
Securities issued by the Department of the Treasury backed by the full faith and credit of the United States of America that represent either interest components or principal components stripped from underlying US treasury obligations under the program of the Department of the Treasury called "Separate Trading of Registered Interest and Principal Securities".

US-GNMA - Callable Agency Debt – Government National Mortgage Association (GNMA)
Fixed-rate, callable, non-amortizing U.S. Dollar denominated debt securities in book entry form issued by GNMA the full and timely payment of principal and interest of which is guaranteed by the U.S. Government.

US-FNMA - Callable Agency Debt – Federal National Mortgage Association (FNMA or Fannie Mae).
Fixed-rate, callable, non-amortizing U.S. Dollar denominated senior debt securities in book entry form issued by FNMA.

US-FHLMC - Callable Agency Debt – the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac).
Fixed-rate, callable, non-amortizing U.S. Dollar denominated senior debt securities in book entry form issued by FHLMC.

US-NCAD - Non-Callable Agency Debt – Various Issuers.
Fixed-rate, non-callable, non-amortizing U.S. Dollar denominated senior debt securities of fixed maturity in book entry form issued by GNMA, FNMA or FHLMC.

US-NCADN - Non-Callable Agency Discount Notes – Various Issuers.
Non-callable U.S. Dollar denominated discount notes sold at a discount from their principal amount payable at maturity with an original maturity of 360 days or less in book entry form and issued by GNMA, FNMA or FHLMC.

US-GNMAMBS - Government National Mortgage Association Certificates – Mortgage Backed Securities (GNMA or Ginnie Mae).
Single-class fully modified pass-through certificates (GNMA Certificates) in book-entry form backed by single-family residential mortgage loans, the full and timely payment of principal and interest of which is guaranteed by the Government National Mortgage Association (excluding Real Estate Mortgage Investment Conduit (REMIC) or other multi-class pass-through certificates, collateralized mortgage obligations, pass-through certificates backed by adjustable rate mortgages, securities paying interest or principal only and derivatives and similar derivatives securities).

US-FNMAMBS - Federal National Mortgage Association Certificates – Mortgage Backed Securities
Single-class fully modified pass-through certificates (FNMA Certificates) in book-entry form backed by single-family residential mortgage loans, the full and timely payment of interest at the applicable certificate rate and the ultimate collection of principal of

which are guaranteed by the Federal National Mortgage Association (excluding Real Estate Mortgage Investment Conduit (REMIC) or other multi-class pass-through certificates, collateralized mortgage obligations, pass-through certificates backed by adjustable rate mortgages, securities paying interest or principal only and derivatives and similar derivatives securities).

US-FHLMCMBS - Federal Home Loan Mortgage Corporation Certificates – Mortgage Backed Securities
Single-class mortgage participation certificates (FHLMC Certificates) in book-entry form backed by single-family residential mortgage loans, the full and timely payment of interest at the applicable certificate rate and the ultimate collection of principal of which are guaranteed by the Federal Home Loan Mortgage Corporation (excluding Real Estate Mortgage Investment Conduit (REMIC) or other multi-class pass-through certificates, collateralized mortgage obligations, pass-through certificates backed by adjustable rate mortgages, securities paying interest or principal only and derivatives and similar derivatives securities).

(k) Other Provisions:

(i) Paragraph 1(b) is amended and restated in its entirety as follows:

(b) Secured Party and Pledgor. All references in this Annex to the "Secured Party" will be to Party B and all corresponding references to the "Pledgor" will be to Party A;

(ii) Paragraph 2 is amended and restated in its entirety as follows:

Paragraph 2. Security Interest. The Pledgor hereby pledges to the Secured Party, as security for its Obligations, and grants to the Secured Party a first priority continuing security interest in, lien on and right of Set-off against all Posted Collateral Transferred to or received by the Secured Party hereunder. Pledgor further agrees to take any actions deemed necessary by the Secured Party to perfect such security interest. Upon the Transfer by the Secured Party to the Pledgor of Posted Collateral, the security interest and lien granted hereunder on that Posted Collateral will be released immediately and, to the extent possible, without any further action by either party.

(iii) The introductory clause of Paragraph 9 is amended and restated as follows:

Paragraph 9. Representations. The Pledgor represents to the Secured Party (which representations will be deemed to be repeated as of each date on which it Transfers Eligible Collateral) that:

(iv) The following definitions of "Pledgor" and "Secured Party" are substituted for the definitions of those terms contained in Paragraph 12:

"Pledgor" means Party A.

"Secured Party" means Party B.

Please confirm your agreement to the terms of the foregoing by signing below.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	**ROSEVILLE NATURAL GAS FINANCING AUTHORITY**
By: _____	By: _____
Name:	Name:
Title:	Title:

Please confirm your agreement to the terms of the foregoing by signing below.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By: Mark Lenczowski
Name: Mark Lenczowski
Title: Vice President

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: W. Craig Robinson
Name:
Title:

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

CONFIRMATION – SWAP

Date: January 24, 2007

To: JPMorgan Chase Bank, National Association (*"JPMorgan"*)

From: Roseville Natural Gas Financing Authority (*"Roseville"*)

The purpose of this confirmation (this *"Confirmation"*) is to confirm the terms and conditions of the Transaction entered into between us on the Trade Date specified below (the *"Transaction"*). This Confirmation supplements, forms part of, is subject to and constitutes a "Confirmation" under the ISDA Master Agreement between Roseville and JPMorgan dated January 24, 2007, as amended and supplemented from time to time (the *"Agreement"*). The definitions and provisions contained in the 2005 ISDA Commodity Definitions (the *"Commodity Definitions"*) and the 2000 ISDA Definitions (the *"2000 Definitions,"* and together with the Commodity Definitions, the *"Definitions"*) are incorporated into this Confirmation. Any reference to a "Swap Transaction" in the 2000 ISDA Definitions is deemed to be a reference to a "Transaction" for purposes of this Confirmation and any reference to a Transaction in a Confirmation is deemed to be a reference to a "Swap Transaction" for purposes of the 2000 ISDA Definitions. Capitalized terms used herein and not otherwise defined herein or in the Definitions shall have the meanings assigned to such terms in the Agreement for Purchase and Sale of Natural Gas between Merrill Lynch Commodities, Inc. (*"MLCI"*) and Roseville dated as of January 24, 2007, as amended and supplemented from time to time (the *"Gas Agreement"*). In the event of any inconsistency between the terms and provisions used in this Confirmation and those found in the Definitions, in the Agreement or in the Gas Agreement, the terms and provisions of this Confirmation will control.

All provisions contained in the Agreement govern this Confirmation except as expressly modified below. The terms of the particular Transaction to which this Confirmation relates are as follows:

Transaction: Commodity Swap

Commodity: Natural Gas

Trade Date: January 24, 2007

Commodity Unit: MMBtu (One Million British Thermal Units)

Effective Date: January 24, 2007

Notional Quantities per Calculation Period: The Notional Quantities for the applicable Calculation Period set forth in Schedule A.

Calculation Period(s): Notwithstanding anything to the contrary in the Definitions, the Calculation Period in respect of the Fixed Amount and the Floating Amount shall be each calendar month beginning with the month indicated in Schedule A and ending on the month indicated in Schedule A. For the avoidance of doubt, each Calculation Period shall include the last day of a calendar month.

Settlement Dates: Shall be as set forth in Schedule A.

Business Day: Means any Day excluding: (1) Saturday, Sunday and any Day on which banks located in the State of California or the State of New York are required or authorized by law or other governmental action to close and (2) any Day on which the New York Mercantile Exchange or the Trustee is closed.

FLOATING AMOUNT

Floating Price Payer: Roseville

Floating Price: Shall mean the Commodity Reference Price. If the Commodity Reference Price has more than four decimal places, the Floating Price shall be rounded to four decimal places. If the number after the final number is five (5) or greater then the final number shall be increased by one (1), and if the number after the final number is less than five (5) then the final number shall remain unchanged.

Commodity Reference Price: The first of month index for such Calculation Period stated in U.S. Dollars, published under the heading "Spot Gas Prices; California: PG&E Citygate: avg." as reported by Natural Gas Intelligence in the relevant issue of NGI's Bidweek Survey. If NGI's Bidweek Survey should (x) cease to publish such price or there is a temporary interruption in the publication of such price or (y) cease to publish entirely, the "Commodity Reference Price" shall be (i) the first of month price per MMBtu, stated in U.S. Dollars, for natural gas to be delivered at the PG&E Citygate during the applicable Calculation Period as set forth in a mutually agreed upon alternative publication, or (ii) if the parties do not agree on an alternative publication within three Business Days, then the "Commodity Reference Price" shall be the first of month index per MMBtu, stated in U.S. Dollars, for natural gas to be delivered at a mutually agreed upon alternative delivery point during the applicable Calculation Period as set forth in a mutually agreed upon index, or (iii) if the parties do not agree on either an alternative publication or an alternative delivery point and index pursuant to (i) or (ii) above within six Business Days, then the "Commodity Reference Price" shall be determined by each party obtaining, in good faith, one quotation from an independent leading dealer or market participant in the natural gas trading market that is not an affiliate of either party (a *"Reference Dealer"*). Each Reference Dealer shall be requested to make a determination of the first of month price for natural gas to be

delivered at the PG&E Citygate during each Calculation Period stated in U.S. Dollars, taking into consideration the latest quotations and any other information they in good faith deem relevant. The "Commodity Reference Price" shall be the arithmetic mean of the amounts determined to be the "Commodity Reference Price" by such Reference Dealers, which such calculation shall be binding and conclusive absent manifest error.

FIXED AMOUNT

Fixed Price Payer: JPMorgan

Fixed Price: $7.7224 per MMBtu of natural gas.

ADDITIONAL PROVISIONS

1. The termination of the Gas Agreement pursuant to Sections 22.4.1 or 26 thereof shall be an Additional Termination Event as defined in Section 5(b)(v) of the Agreement, in which case Roseville shall be the Affected Party and the Settlement Amount shall be $0.00. For clarity, the Parties agree that they shall remain responsible for the payment of any Unpaid Amounts.

2. It shall constitute an Additional Termination Event as defined in Section 5(b)(v) of the Agreement with JPMorgan as the Affected Party, if a Bank Downgrade Event (as defined below) shall occur. A *"Bank Downgrade Event"* means if at any time during the term of the Agreement, Moody's fails to assign a credit rating of at least "A1," S&P fails to assign a credit rating of at least "A+" or Fitch fails to assign a credit rating of at least "A+" to the long-term, unsecured and unsubordinated indebtedness of JPMorgan (whether such failure is by assignment of a rating classification below the applicable threshold or by withdrawal, suspension or other failure to assign any credit rating).

3. The "Events of Default" specified in Section 5(a) and the Termination Events specified in Section 5(b) will apply to Roseville and to JPMorgan.

(a) Notwithstanding the provisions of Section 6(a) regarding "Right to Terminate Following Event of Default" or Section 6(b) regarding "Right to Terminate Following Termination Event," upon the occurrence of any Event of Default or Termination Event in which JPMorgan is the Defaulting Party or the Affected Party, the sole remedy for Roseville and JPMorgan shall be as follows:

(1) Roseville shall obtain an assignee to which JPMorgan can assign the rights of, and which will assume all the obligations of JPMorgan under the Agreement (or, if the Commodity Swap is then in existence and an Early Termination Date with respect to the Commodity Swap has not otherwise occurred, then under both the Agreement and the Commodity Swap) within 30 days of the occurrence of such Event of Default or Termination Event, and with consent by JPMorgan to such assignment not to be unreasonably withheld. *"Commodity Swap"* means the swap transaction between

JPMorgan and MLCI entered into (together with the Transaction described in this Confirmation) as part of the transaction involving the issuance of the Bonds.

(2) If an assignment has not occurred within the period of time provided for in the foregoing clause 3(a)(1), such failure shall constitute an Additional Termination Event as defined in Section 5(b)(v) of the Agreement, an Early Termination Date will occur immediately upon such Additional Termination Event, JPMorgan shall be the Affected Party, and the Settlement Amount shall be $0.00. For clarity, the Parties agree that they shall remain responsible for the payment of any Unpaid Amounts.

(b) Notwithstanding the provisions of Section 6(a) regarding "Right to Terminate Following Event of Default" or Section 6(b) regarding "Right to Terminate Following Termination Event," upon the occurrence of any Event of Default or Termination Event in which (i) Roseville is the Defaulting Party or the Affected Party, and (ii) results in an Early Termination, the Settlement Amount shall be $0.00. For clarity, the Parties agree that they shall remain responsible for the payment of any Unpaid Amounts.

4. *Payments*. (a) All payments to be made by Roseville to JPMorgan hereunder shall be made to:

Pay: JPMorgan Chase Bank, N.A.
ABA #021000021
Acct. #9009000267
Attn: Commodity Processing

(b) All payments to be made by JPMorgan to Roseville hereunder shall be made directly to the Trustee into an account pursuant to payment instructions provided by Roseville to JPMorgan.

If this Confirmation correctly sets forth the terms of the Transaction that we have entered into, please promptly confirm in a reply to us by signing below. The parties hereto agree that this Confirmation, whether received in original or facsimile form, may be executed in counterparts, which execution may be effected by means of facsimile transmission, and which when taken together shall constitute a single and original agreement between us and a binding supplement to the ISDA Agreement once completed. Where execution is effected by means of facsimile transmission, the parties agree that the sender's signature as printed by the recipient's facsimile machine shall be deemed to be the sender's original signature.

JPM Ref# 5270308

IN WITNESS WHEREOF the parties have executed this Confirmation as of the date first above written.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By _____
Name: ALBERTO J. ATIENZA
Title: ASSOCIATE

By _____
Name:
Title: _____

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By _____
Name: _____
Title: _____

By _____
Name: _____
Title: _____

Schedule A: RNGR4 with JPMorgan Chase Bank, N.A.

Calculation Period	Settlement Date	Notional Quantities
01/2008	02/25/2008	186,000
02/2008	03/25/2008	145,000
03/2008	04/25/2008	77,500
04/2008	05/27/2008	75,000
05/2008	06/25/2008	93,000
06/2008	07/25/2008	135,000
07/2008	08/25/2008	372,000
08/2008	09/25/2008	372,000
09/2008	10/27/2008	300,000
10/2008	11/25/2008	186,000
11/2008	12/26/2008	240,000
12/2008	01/26/2009	170,500
01/2009	02/25/2009	186,000
02/2009	03/25/2009	140,000
03/2009	04/27/2009	77,500
04/2009	05/26/2009	75,000
05/2009	06/25/2009	93,000
06/2009	07/27/2009	135,000
07/2009	08/25/2009	372,000
08/2009	09/25/2009	372,000
09/2009	10/26/2009	300,000
10/2009	11/25/2009	186,000
11/2009	12/26/2009	240,000
12/2009	01/25/2010	170,500
01/2010	02/25/2010	186,000
02/2010	03/25/2010	140,000
03/2010	04/26/2010	77,500
04/2010	05/25/2010	75,000
05/2010	06/25/2010	93,000
06/2010	07/26/2010	135,000
07/2010	08/25/2010	372,000
08/2010	09/27/2010	372,000
09/2010	10/25/2010	300,000
10/2010	11/26/2010	186,000
11/2010	12/27/2010	240,000
12/2010	01/25/2011	170,500
01/2011	02/25/2011	186,000
02/2011	03/25/2011	140,000
03/2011	04/25/2011	77,500
04/2011	05/25/2011	75,000
05/2011	06/27/2011	93,000
06/2011	07/25/2011	135,000
07/2011	08/25/2011	372,000
08/2011	09/26/2011	372,000
09/2011	10/25/2011	300,000
10/2011	11/25/2011	186,000
11/2011	12/27/2011	240,000
12/2011	01/25/2012	170,500
01/2012	02/27/2012	186,000
02/2012	03/26/2012	145,000
03/2012	04/25/2012	77,500
04/2012	05/25/2012	75,000
05/2012	06/25/2012	93,000
06/2012	07/25/2012	135,000
07/2012	08/27/2012	372,000
08/2012	09/25/2012	372,000
09/2012	10/25/2012	300,000
10/2012	11/26/2012	186,000
11/2012	12/26/2012	240,000
12/2012	01/25/2013	170,500
01/2013	02/25/2013	186,000

Schedule A: RNGRA with JPMorgan Chase Bank, N.A.

Calculation Period	Settlement Date	Notional Quantities
02/2013	03/25/2013	140,000
03/2013	04/25/2013	77,500
04/2013	05/25/2013	75,000
05/2013	06/25/2013	93,000
06/2013	07/25/2013	135,000
07/2013	08/25/2013	372,000
08/2013	09/25/2013	372,000
09/2013	10/25/2013	300,000
10/2013	11/25/2013	186,000
11/2013	12/25/2013	240,000
12/2013	01/27/2014	170,500
01/2014	02/25/2014	186,000
02/2014	03/25/2014	140,000
03/2014	04/25/2014	77,500
04/2014	05/27/2014	75,000
05/2014	06/25/2014	93,000
06/2014	07/25/2014	135,000
07/2014	08/25/2014	372,000
08/2014	09/25/2014	372,000
09/2014	10/27/2014	300,000
10/2014	11/25/2014	186,000
11/2014	12/25/2014	240,000
12/2014	01/26/2015	170,500
01/2015	02/25/2015	186,000
02/2015	03/25/2015	140,000
03/2015	04/27/2015	77,500
04/2015	05/26/2015	75,000
05/2015	06/25/2015	93,000
06/2015	07/27/2015	135,000
07/2015	08/25/2015	372,000
08/2015	09/25/2015	372,000
09/2015	10/26/2015	300,000
10/2015	11/25/2015	186,000
11/2015	12/28/2015	240,000
12/2015	01/25/2016	170,500
01/2016	02/25/2016	186,000
02/2016	03/28/2016	145,000
03/2016	04/25/2016	77,500
04/2016	05/25/2016	75,000
05/2016	06/27/2016	93,000
06/2016	07/25/2016	135,000
07/2016	08/25/2016	372,000
08/2016	09/26/2016	372,000
09/2016	10/25/2016	300,000
10/2016	11/25/2016	186,000
11/2016	12/27/2016	240,000
12/2016	01/25/2017	170,500
01/2017	02/27/2017	186,000
02/2017	03/27/2017	140,000
03/2017	04/25/2017	77,500
04/2017	05/25/2017	75,000
05/2017	06/26/2017	93,000
06/2017	07/25/2017	135,000
07/2017	08/25/2017	372,000
08/2017	09/25/2017	372,000
09/2017	10/25/2017	300,000
10/2017	11/27/2017	186,000
11/2017	12/26/2017	240,000
12/2017	01/25/2018	170,500
01/2018	02/26/2018	186,000
02/2018	03/26/2018	140,000

Schedule A: RNGRA with JPMorgan Chase Bank, N.A.

Calculation Period	Settlement Date	Notional Quantities
03/2018	04/25/2018	77,500
04/2018	05/25/2018	75,000
05/2018	06/25/2018	93,000
06/2018	07/25/2018	135,000
07/2018	08/27/2018	372,000
08/2018	09/25/2018	372,000
09/2018	10/25/2018	300,000
10/2018	11/26/2018	186,000
11/2018	12/26/2018	240,000
12/2018	01/25/2019	170,500
01/2019	02/25/2019	186,000
02/2019	03/25/2019	140,000
03/2019	04/25/2019	77,500
04/2019	05/25/2019	75,000
05/2019	06/25/2019	93,000
06/2019	07/25/2019	135,000
07/2019	08/25/2019	372,000
08/2019	09/25/2019	372,000
09/2019	10/25/2019	300,000
10/2019	11/25/2019	186,000
11/2019	12/26/2019	240,000
12/2019	01/27/2020	170,500
01/2020	02/25/2020	186,000
02/2020	03/25/2020	145,000
03/2020	04/27/2020	77,500
04/2020	05/26/2020	75,000
05/2020	06/25/2020	93,000
06/2020	07/27/2020	135,000
07/2020	08/25/2020	372,000
08/2020	09/25/2020	372,000
09/2020	10/26/2020	300,000
10/2020	11/25/2020	186,000
11/2020	12/25/2020	240,000
12/2020	01/25/2021	170,500
01/2021	02/25/2021	186,000
02/2021	03/25/2021	140,000
03/2021	04/26/2021	77,500
04/2021	05/25/2021	75,000
05/2021	06/25/2021	93,000
06/2021	07/26/2021	135,000
07/2021	08/25/2021	372,000
08/2021	09/27/2021	372,000
09/2021	10/25/2021	300,000
10/2021	11/26/2021	186,000
11/2021	12/27/2021	240,000
12/2021	01/25/2022	170,500
01/2022	02/25/2022	186,000
02/2022	03/25/2022	140,000
03/2022	04/25/2022	77,500
04/2022	05/25/2022	75,000
05/2022	06/27/2022	93,000
06/2022	07/25/2022	135,000
07/2022	08/25/2022	372,000
08/2022	09/26/2022	372,000
09/2022	10/25/2022	300,000
10/2022	11/25/2022	186,000
11/2022	12/27/2022	240,000
12/2022	01/25/2023	170,500
01/2023	02/27/2023	186,000
02/2023	03/27/2023	140,000
03/2023	04/25/2023	77,500

Schedule A: RNGRA with JPMorgan Chase Bank, N.A.

Calculation Period	Settlement Date	Notional Quantities
04/2023	05/25/2023	75,000
05/2023	06/25/2023	93,000
06/2023	07/25/2023	135,000
07/2023	08/25/2023	372,000
08/2023	09/25/2023	372,000
09/2023	10/25/2023	300,000
10/2023	11/27/2023	186,000
11/2023	12/26/2023	240,000
12/2023	01/25/2024	170,500
01/2024	02/26/2024	186,000
02/2024	03/25/2024	145,000
03/2024	04/25/2024	77,500
04/2024	05/25/2024	75,000
05/2024	06/25/2024	93,000
06/2024	07/25/2024	135,000
07/2024	08/26/2024	372,000
08/2024	09/25/2024	372,000
09/2024	10/25/2024	300,000
10/2024	11/25/2024	186,000
11/2024	12/26/2024	240,000
12/2024	01/27/2025	170,500
01/2025	02/25/2025	186,000
02/2025	03/25/2025	140,000
03/2025	04/25/2025	77,500
04/2025	05/27/2025	75,000
05/2025	06/25/2025	93,000
06/2025	07/25/2025	135,000
07/2025	08/25/2025	372,000
08/2025	09/25/2025	372,000
09/2025	10/27/2025	300,000
10/2025	11/25/2025	186,000
11/2025	12/26/2025	240,000
12/2025	01/26/2026	170,500
01/2026	02/25/2026	186,000
02/2026	03/25/2026	140,000
03/2026	04/27/2026	77,500
04/2026	05/26/2026	75,000
05/2026	06/25/2026	93,000
06/2026	07/27/2026	135,000
07/2026	08/25/2026	372,000
08/2026	09/25/2026	372,000
09/2026	10/26/2026	300,000
10/2026	11/25/2026	186,000
11/2026	12/28/2026	240,000
12/2026	01/25/2027	170,500
01/2027	02/25/2027	186,000
02/2027	03/25/2027	140,000
03/2027	04/26/2027	77,500
04/2027	05/25/2027	75,000
05/2027	06/25/2027	93,000
06/2027	07/26/2027	135,000
07/2027	08/25/2027	372,000
08/2027	09/27/2027	372,000
09/2027	10/25/2027	300,000
10/2027	11/26/2027	186,000
11/2027	12/27/2027	240,000
12/2027	01/25/2028	170,500

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF THE SWAP COUNTERPARTY

I, the duly authorized undersigned officer of JPMorgan Chase Bank, N.A. (the "Swap Counterparty"), HEREBY CERTIFY that the information contained in the Official Statement relating to the Swap Counterparty is, at the date of the Closing, true and correct in all material respects, does not contain any untrue statement of a material fact and does not omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Indenture.

Dated: February 6, 2007

JPMORGAN CHASE BANK, N.A.

By: Mahdeen Nouli

Title: Executive Director

(Multicurrency--Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of January 24, 2007

MERRILL LYNCH COMMODITIES, INC. ("Party A")

And

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION ("Party B")

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:

1. **Interpretation**

(a) ***Definitions.*** The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) ***Inconsistency.*** In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.

(c) ***Single Agreement.*** All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. **Obligations**

(a) ***General Conditions.***

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(b) ***Change of Account.*** Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) ***Netting.*** If on any date amounts would otherwise be payable:

(i) in the same currency; and

(ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) ***Deduction or Withholding for Tax.***

(i) ***Gross-Up.*** All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:

(1) promptly notify the other party ("Y") of such requirement;

(2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;

(3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y evidencing such payment to such authorities; and

(4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

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(ii) ***Liability.*** If:

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) ***Default Interest; Other Amounts.*** Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by Law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:

(a) ***Basic Representations.***

(i) ***Status.*** It is duly organized and validly existing under the laws of the jurisdiction of its organization or incorporation and, if relevant under such laws, in good standing;

(ii) ***Powers.*** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorize such execution, delivery and performance;

(iii) ***No Violation or Conflict.*** Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) ***Consents.*** All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) ***Obligations Binding.*** Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at Law)).

(b) ***Absence of Certain Events.*** No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) ***Absence of Litigation.*** There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at Law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) ***Accuracy of Specified Information.*** All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) ***Payer Tax Representation.*** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) ***Payee Tax Representations.*** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

4. **Agreements**

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:

(a) ***Furnish Specified Information.*** It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) ***Maintain Authorizations.*** It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) ***Comply with Laws.*** It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) ***Tax Agreement.*** It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

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(e) ***Payment of Stamp Tax.*** Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated, organized, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. **Events of Default and Termination Events**

(a) ***Events of Default.*** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:

(i) ***Failure to Pay or Deliver.*** Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) ***Breach of Agreement.*** Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2 (a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) ***Credit Support Default.***

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) ***Misrepresentation.*** A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) ***Default under Specified Transaction.*** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) ***Cross Default.*** If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted

in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) ***Bankruptcy.*** The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) ***Merger Without Assumption.*** The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer:

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) ***Termination Events.*** The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:

(i) ***Illegality.*** Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):

(1) to perform any absolute or contingent obligation to make a payment or delivery, or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction.

(ii) ***Tax Event.*** Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) ***Tax Event Upon Merger.*** The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) ***Credit Event Upon Merger.*** If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X, or its successor or transferee, as appropriate, will be the Affected Party); or

(v) ***Additional Termination Event.*** If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) ***Event of Default and Illegality.*** If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. Early Termination

(a) ***Right to Terminate Following Event of Default.*** If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(l), (3), (5), (6) or, to the extent analogous thereto, (8) and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) ***Right to Terminate Following Termination Event.***

(i) ***Notice.*** If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) ***Transfer to Avoid Termination Event.*** If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) ***Two Affected Parties.*** If an Illegality under Section 5(b)(i)(l) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) ***Right to Terminate.*** If:

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2) a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) ***Effect of Designation.***

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) ***Calculations.***

(i) ***Statement.*** On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) ***Payment Date.*** An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) ***Payments on Early Termination.*** If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) ***Events of Default.*** If the Early Termination Date results from an Event of Default:

(1) ***First Method and Market Quotation.*** If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) ***First Method and Loss.*** If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) ***Second Method and Market Quotation.*** If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) ***Second Method and Loss.*** If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) ***Termination Events.*** If the Early Termination Date results from a Termination Event:

(1) ***One Affected Party.*** If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) ***Two Affected Parties.*** If there are two Affected Parties:

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) ***Adjustment for Bankruptcy.*** In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) ***Pre-Estimate.*** The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Contractual Currency

(a) ***Payment in the Contractual Currency.*** Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) ***Judgments.*** To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such

other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which, the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) ***Separate Indemnities.*** To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed, and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) ***Evidence of Loss.*** For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

9. Miscellaneous

(a) ***Entire Agreement.*** This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) ***Amendments.*** No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) ***Survival of Obligations.*** Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) ***Remedies Cumulative.*** Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) ***Counterparts and Confirmations.***

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) ***No Waiver of Rights.*** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) ***Headings.*** The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

10. Offices; Multibranch Parties

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organization of such party, the obligations of such party are the same as if it had entered into

the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.

(b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.

(c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

11. **Expenses**

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. **Notices**

(a) ***Effectiveness.*** Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:

(i) if in writing and delivered in person or by courier, on the date it is delivered;

(ii) if sent by telex, on the date the recipient's answer back is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) ***Change of Addresses.*** Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

13. **Governing Law and Jurisdiction**

(a) ***Governing Law.*** This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) ***Jurisdiction.*** With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) ***Service of Process.*** Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) ***Waiver of Immunities.*** Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. Definitions

As used in this Agreement:

*"**Additional Termination Event**"* has the meaning specified in Section 5(b).

*"**Affected Party**"* has the meaning specified in Section 5(b).

*"**Affected Transactions**"* means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

*"**Affiliate**"* means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

*"**Applicable Rate**"* means:

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

*"**Burdened Party**"* has the meaning specified in Section 5(b).

"Change in Tax Law" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"consent" includes a consent, approval, action, authorization, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iv).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"Indemnifiable Tax" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organized, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"Law" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and *"lawful"* and *"unlawful"* will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial center, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably

practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Office" means a branch or office of a party, which may be such party's head or home office.

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Relevant Jurisdiction" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organized, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"Scheduled Payment Date" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of:

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"Specified Entity" has the meaning specified in the Schedule.

"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Stamp Tax" means any stamp, registration, documentation or similar tax.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"Tax Event" has the meaning specified in Section 5(b).

"Tax Event Upon Merger" has the meaning specified in Section 5(b).

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Currency" has the meaning specified in the Schedule.

"Termination Currency Equivalent" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"Termination Event" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

Merrill Lynch Commodities, Inc.

By: _____

Name: Barry Goldblatt

Title: Managing Director

Date: _____

JPMorgan Chase Bank, National Association

By: _____

Name: ERIC W. BOWATZ

Title: V.P.

Date: _____

ISDA® 1992

SCHEDULE

to the 1992

ISDA MASTER AGREEMENT
(Multicurrency-Cross Border)

dated as of January 24, 2007.

between

MERRILL LYNCH COMMODITIES, INC.
a corporation organized under the laws of the State of Delaware
("Party A")

and

JPMorgan Chase Bank, National Association
a national banking association organized under the laws of the United States of America
("Party B")

Part 1
TERMINATION PROVISIONS

In this Agreement:

(a) **"Specified Entity"** means in relation to Party A and Party B for the purpose of:

Section 5(a)(v):	Not Applicable
Section 5(a)(vi)	Not Applicable
Section 5(a)(vii):	Not Applicable
Section 5(b)(iv):	Not Applicable

(b) **"Specified Transaction"** will have the meaning specified in Section 14 of this Agreement.

(c) The **"Cross Default"** provisions of Section 5(a)(vi) of this Agreement will apply to Party A and Party B. However, Section 5(a)(vi) is hereby amended by the deletion of the words ", or becoming capable at such time of being declared," from clause (1) of the provision. In connection therewith, **"Specified Indebtedness"** will have the meaning specified in Section 14 of this Agreement, except that such term shall not include obligations in respect of deposits received in the ordinary course of a party's banking business, and **"Threshold Amount"** means $100,000,000 with respect to Party A and Party B.

(d) The **"Credit Event Upon Merger"** provisions of Section 5(b)(iv) will apply to Party A and Party B; provided, however, that the phrase "materially weaker" means with respect to a party and any Credit Support Provider of such party (A) the senior long-term debt or deposits of the resulting, surviving or transferee entity is rated less than investment grade by Standard & Poor's Corporation or by Moody's Investors Service, Inc., or (B) in the event that there are no such Standard & Poor's Corporation or Moody's Investors Service, Inc. ratings, the Policies (as defined below) in effect at the time, of the party which is not the Affected Party, would lead such non-Affected Party, solely as a result of a change in the nature, character, identity or condition of the Affected Party from its state (as a party to this Agreement) prior to such consolidation, amalgamation, merger or transfer, to decline to make an extension of credit to, or enter into a Transaction with, the resulting, surviving or transferee entity. "Policies", for the purposes of this definition means: (x)(i) internal credit limits applicable to individual entities or (ii) other limits on doing business with entities domiciled or doing business in certain jurisdictions or engaging in certain activities, or (y) internal restrictions on doing business with entities with whom the party which is not the Affected Party has had prior adverse business relations.

(e) The **"Automatic Early Termination"** provision of Section 6(a) of this Agreement will not apply to Party A and will not apply to Party B.

(f) **Payments on Early Termination.** For the purpose of Section 6(e) of this Agreement:

(i) Market Quotation will apply, and

(ii) The Second Method will apply.

(g) **"Termination Currency"** means United States Dollars.

(h) **Additional Termination Event** will not apply.

Part 2
TAX REPRESENTATIONS

(a) **Payer Representations.** For the purpose of Section 3(e) of this Agreement, each of Party A and Party B will make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction of the agreement contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement, provided that it shall not be a breach of this representation where reliance is placed on clause (ii) herein and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(b) **Payee Tax Representations.** For the purpose of Section 3(f) of this Agreement, Party A and Party B make the representation(s) specified below, if any:

Party A: Party A is a corporation organized under the laws of the State of Delaware and is a resident of the United States of America.

Party B: Party B is a national banking association organized under the laws of the United States of America and is a resident of the United States of America.

Part 3
AGREEMENT TO DELIVER DOCUMENTS

For the purpose of Section 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents, as applicable:

(a) Tax forms, certificates, or other documents to be delivered to be delivered are:

Party required to deliver document	Form/Document/ Certificate	Date by which to be delivered
Party A and Party B	United States Internal Revenue Service Form W-9, or any successor form.	(i) On the date which is before the first Scheduled Payment Date under this Agreement, (ii) promptly upon reasonable demand by the other party, and (iii) promptly upon learning that any such form previously provided by the other party has become obsolete, incorrect, or ineffective.

Party Required to Deliver Document	Form/Document/ Certificate	Date by which to Be Delivered	Covered by Section 3(d) Representation
Party A/Party B.	Annual audited financial statements (or, in the case of Party A, of its Credit Support Provider) prepared in accordance with generally accepted accounting principles in the country in which the party (or, in the case of Party A, its Credit Support Provider) is organized.	Promptly after request.	Yes.
Party A/Party B.	Quarterly unaudited financial statements (or, in the case of Party A, of its Credit Support Provider) prepared in accordance with generally accepted accounting principles in the country in which the party (or, in the case of Party A, its Credit Support Provider) is organized.	Promptly after request.	Yes.
Party A/Party B.	Credit Support Document, if any, specified in Part 4 of the Schedule, such Credit Support Document being duly executed if required.	Concurrently with the execution of this Agreement.	No.
Party A/Party B.	Certified copies of the resolution(s) of its board of directors or other documents authorizing the execution and delivery of this Agreement.	Concurrently with the execution of this Agreement.	Yes.
Party A/Party B.	Evidence of the authority, incumbency and specimen signature of each person executing this Agreement or any Confirmation, Credit Support Document or other document entered into in connection with this Agreement on its behalf or on behalf of a Credit Support Provider or otherwise, as the case may be.	Upon or prior to the delivery of each such document by any such person.	Yes.

Part 4
MISCELLANEOUS

(a) **Addresses for Notices.** For the purpose of Section 12(a) of this Agreement:

Address for notices or communications to **Party A:**

Merrill Lynch Commodities, Inc.
20 East Greenway Plaza
7th Floor
Houston, Texas 77046
Attn: Legal
Fax: 713-544-5551
Phone: 713-544-4975

Address for notices or communications to **Party B:**

JPMorgan Chase Bank, National Association
Attention: Legal Department – Derivatives Practice Group
270 Park Avenue, 41st Floor
New York, New York 10017-2070
Facsimile No.: (212) 270-3625

(b) **Process Agent.** For the purpose of Section 13(c) of this Agreement:

Party A's Process Agent: Not Applicable.
Party B's Process Agent: Not Applicable.

(c) **Offices.** The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party**. Neither Party A nor Party B is a Multibranch Party.

(e) **Calculation Agent.** The Calculation Agent is Party A unless otherwise specified in a Confirmation in relation to the relevant Transaction. However, if the Defaulting Party is Party A, then the Calculation Agent shall be Party B.

(f) **Credit Support Document(s):**

(i) With respect to Party A, a Guaranty, executed by Merrill Lynch & Co., Inc. in the form attached hereto as Exhibit A.

(ii) With respect to Party B: not applicable.

(g) **Credit Support Provider(s):**

(i) With respect to Party A, Merrill Lynch & Co., Inc.

(ii) With respect to Party B: not applicable.

(h) **Governing Law.**

(i) This Agreement will be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).

(i) **Netting of Payments.** Sub-paragraph (ii) of Section 2(c) will not apply.

(j) **"Affiliate"** will have the meaning specified in Section 14 of this Agreement.

Part 5
OTHER PROVISIONS

(a) **Absence of Litigation.** Section 3(c) of this Agreement is hereby amended by: (i) adding in the second line thereof after the word "governmental" the words "or regulatory" and (ii) adding the words "in any material respect" immediately prior to the end of the section.

(b) **Financial Statements.** Section 3(d) is hereby amended by adding in the third line thereof after the word "respect" and before the period:

"or, in the case of financial statements, a fair presentation of the financial condition of the relevant party".

(c) **Additional Representations.** Section 3 of this Agreement is hereby amended by adding at the end thereof the following Subparagraphs (g), (h), and (i):

(g) **Eligible Contract Participant.** It is an "eligible contract participant" within the meaning of Section 1a(12) of the Commodity Exchange Act, as amended.

(h) **Standardization, Creditworthiness, and Transferability.** The economic terms of this Agreement, any Credit Support Document to which it is a party, and each Transaction have been individually tailored and negotiated by it; it has received and reviewed financial information concerning the other party and has had a reasonable opportunity to ask questions of and receive answers and information from the other party concerning such other party, this Agreement, such Credit Support Document, and such Transaction; the creditworthiness of the other party was a material consideration in its entering into or determining the terms of this Agreement, such Credit Support Document, and such Transaction; and the transferability of this Agreement, such Credit Support Document, and such Transaction is restricted as provided herein and therein.

(i) **No Reliance.** In connection with the negotiation of, the entering into, and the confirming of the execution of, this Agreement, any Credit Support Document to which it is a party, and each Transaction: (i) it is acting as principal (and not as agent or in any other capacity, fiduciary or otherwise); (ii) the other party is not acting as a fiduciary or financial or investment advisor for it; (iii) it is not relying upon any representations (whether written or oral) of the other party other than the representations expressly set forth in this Agreement and in such Credit Support Document; (iv) the other party has not given to it (directly or indirectly through any other person) any advice, counsel, assurance, guaranty, or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence, or benefit (either legal, regulatory, tax, financial, accounting, or otherwise) of this Agreement, such Credit Support Document, or such Transaction; (v) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary, and not upon any view expressed by the other party; (vi) all trading decisions have been

the result of arm's length negotiations between the parties; and (vii) it is entering into this Agreement, such Credit Support Document, and such Transaction with a full understanding of all of the risks hereof and thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

(d) **Reference Market-makers.** The definition of "Reference Market-makers" in Section 14 of this Agreement is hereby amended by: (i) deleting "(a)" from the second line thereof, (ii) deleting in the third line thereof after the word "credit" the words "and (b) to the extent practicable, from among such dealers having an office in the same city" and (iii) replacing such words with the words "or to enter into transactions similar in nature to Transactions."

(e) **ISDA Definitions.** Unless otherwise specified in a Confirmation, this Agreement, each Confirmation and each Transaction incorporates, and is subject to and governed by the 2000 ISDA Definitions, the 2005 ISDA Commodity Derivatives Definitions, the 1996 ISDA Equity Derivatives Definitions, the 1997 ISDA Government Bond Option Definitions, the 1998 ISDA FX and Currency Option Definitions all as amended, supplemented, updated, and restated from time to time (collectively, the "Definitions").

(f) **Inconsistency.** In the event of any inconsistency between the provisions of this Agreement and the Definitions, this Agreement will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Agreement or the Definitions, such Confirmation will prevail for the purpose of the relevant Transaction.

(g) **Accounts.** If a Confirmation does not state the account to which, or the currency in which, payments are to be made, they shall be made in United States Dollars to the following accounts:

Party A

Pay:	JP Morgan Chase Bank, New York, NY
For the Account of:	Merrill Lynch Commodities, Inc.
Account No/CHIPS UID:	323009980
Fed. ABA No.:	021000021

Party B

Pay:	JPMorgan Chase Bank, N.A.
For the Account of:	JPMorgan Chase Bank, N.A.
Account No/CHIPS UID:	9009000267
Fed. ABA No.:	021000021
	Attn: Commodity Processing

(h) **Set Off.**

(i) Without affecting the provisions of this Agreement requiring the calculation of certain net payment amounts, all payments under this Agreement will be made without setoff or counterclaim; provided, however, that in addition to any rights of setoff a party may have as a matter of law or otherwise, upon the designation or deemed designation of an Early Termination Date, the non-Defaulting Party or non-Affected party (in either case, "X") may without prior notice set off any sum or obligation (whether or not arising under this Agreement, whether or not matured, whether or not contingent and regardless of the currency, place of payment or booking office of the obligation) owed or due by the Defaulting Party or Affected Party (in either case, "Y") to X against any sum or obligation (whether or not arising under this Agreement, whether or not matured, whether or not contingent and regardless of the currency, place of payment or booking office of the obligation) owed or due by X or any Affiliate of X (the "Original Obligation") to Y.

(ii) For the purposes of cross-currency set-off, X may convert any obligation to another currency at a market rate determined by X.

(iii) If an obligation is unascertained, X may in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

(i) **Limitation of Rate.** Notwithstanding any provision to the contrary contained in this Agreement, in no event shall the Default Rate, Non-default Rate, or Termination Rate exceed the Highest Lawful Rate. For purposes hereof, "Highest Lawful Rate" shall mean, with respect to each party, the maximum non-usurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged, or received on the subject indebtedness under the law applicable to such party.

(j) **LIMITATION OF LIABILITY. WITH RESPECT TO CLAIMS UNDER THIS AGREEMENT, NO PARTY SHALL BE REQUIRED TO PAY OR BE LIABLE FOR EXEMPLARY, PUNITIVE, INCIDENTAL, CONSEQUENTIAL, OR INDIRECT DAMAGES (WHETHER OR NOT ARISING FROM ITS NEGLIGENCE) TO ANY OTHER PARTY EXCEPT TO THE EXTENT THAT THE PAYMENTS REQUIRED TO BE MADE PURSUANT TO THIS AGREEMENT ARE DEEMED TO BE SUCH DAMAGES.**

IF AND TO THE EXTENT ANY PAYMENT REQUIRED TO BE MADE PURSUANT TO THIS AGREEMENT IS DEEMED TO CONSTITUTE LIQUIDATED DAMAGES, THE PARTIES ACKNOWLEDGE AND AGREE THAT SUCH DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE AND THAT SUCH PAYMENT IS INTENDED TO BE A REASONABLE APPROXIMATION OF THE AMOUNT OF SUCH DAMAGES AND NOT A PENALTY.

(k) **Confidentiality.** Any information made available by one party or its Credit Support Provider to the other party or its Credit Support Provider (if any) with respect to this Agreement or any Transaction hereunder is confidential and shall not be discussed with or disclosed to any third party, except for such information (i) as may become generally available to the public other than as a result of a violation of this Agreement, (ii) as may be required or appropriate in response to any summons, subpoena, or otherwise in connection with any litigation or to comply with any applicable law, order, regulation, or ruling, (iii) as may be obtained from a non-confidential source that disclosed such information in a manner that did not violate its obligations to the other party or its Credit Support Provider (if any) in making such disclosure, (iv) as may be furnished to a regulator with jurisdiction over the party, or (v) as may be furnished to any person or entity (including, without limitation, that party's auditors, attorneys, advisors, or financial institutions) with which the party has a written agreement or which are otherwise required to keep the information that is disclosed in confidence. Nothing herein shall restrict a party from providing data or information to pricing services or platforms that a party may participate in, provided that the identity of the party is not produced.

(l) **Procedures for Entering into Transactions.** On or promptly following the date on which the parties reach agreement on the terms of a Transaction, as contemplated by the first sentence of Section 9(e)(ii), Party A will send to Party B a Confirmation. Party B will promptly thereafter confirm the accuracy of (in the manner required by Section 9(e)(ii)), or request the correction of, such Confirmation (in the later case, indicating how it believes the terms of such Confirmation should be correctly stated and such other terms which should be added to or deleted from such Confirmation to make it correct). If any disputes shall arise as to whether an error exists in a Confirmation, the parties shall resolve the dispute in good faith. If Party B has not accepted or disputed the Confirmation in the manner set forth above within three (3) Local Business Days after it was sent to Party B, the Confirmation shall be deemed binding as sent, absent manifest error.

However, notwithstanding the foregoing, in the event that any Confirmation for any Transaction contains provisions not relating to the commercial terms of the Transaction, which modify or supplement the general terms and conditions of this Agreement, such provisions shall not be deemed accepted unless agreed to in writing by the parties. Failure to send or to return an executed Confirmation or any objection regarding a Confirmation by either party shall not invalidate the Transaction agreed to by the parties.

(m) **Consent to Recording.** The parties agree to amend Section 9 by adding a new Section 9(h) as follows:

(h) **Consent to Recording**. The parties agree that each may electronically record all telephone conversations between them regarding any Transaction and the terms thereof, with or without the use of a warning tone, and that any such recordings may be submitted in evidence to any court or in any Proceeding for the purpose of establishing the formation or existence of any Transaction and the terms thereof. Each party hereby consents to such recording and agrees to obtain any necessary consent to, and provide notice of such recording to, its personnel.

(n) **Termination of Agreement.** If no Transactions are (or any present or future obligations, contingent or otherwise, thereunder) outstanding under this Agreement, either party may terminate this Agreement upon thirty (30) days advance written notice to the other party.

(o) **Severability.** If any one or more of the provisions contained in this Agreement should be held invalid, illegal, or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations, to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(p) **Method of Notice.** Section 12(a)(ii) of the Master Agreement is deleted in its entirety.

(q) **Notice by Facsimile Transmission.** Section 12(a) is hereby amended by inserting the words "or 13(c)" between the number "6" and the word "may" in the second line thereof.

(r) **Waiver of Jury Trial.** Section 13 of this Agreement is hereby amended to add the following as a new Section 13(e) of this Agreement:

WAIVER OF JURY TRIAL. EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY CREDIT SUPPORT DOCUMENT. EACH PARTY CERTIFIES THAT THE OTHER PARTY HAS NOT REPRESENTED THAT IT WOULD NOT ENFORCE THE FOREGOING WAIVER OF JURY TRIAL IF A DISPUTE ARISES. EACH PARTY ACKNOWLEDGES THAT THE OTHER PARTY HAS RELIED ON THE FOREGOING WAIVER OF JURY TRIAL IN ENTERING INTO THIS AGREEMENT.

(s) **Change of Account.** Section 2(b) of the Agreement is hereby amended by adding the following proviso at the end thereof: "*provided, that*, such new account shall be in the same legal and tax jurisdiction as the account prior to any such change."

Part 6
ADDITIONAL PROVISIONS FOR COMMODITY DERIVATIVE TRANSACTIONS

(a) **The "Market Disruption Events"** specified in Section 7.4(d)(i) of the Commodity Definitions shall apply, except as otherwise specifically provided in the Confirmation.

(b) **"Additional Market Disruption Events"** shall apply only if so specified in the relevant Confirmation.

(c) The following "Disruption Fallbacks" specified in Section 7.5(c) of the Commodity Definitions shall apply in the following order, except as otherwise provided for in the Confirmation:

(i) "Fallback Reference Price"
(ii) "Negotiated Fallback"
(iii) "Delayed Publication or Announcement"

(iv) "Fallback Reference Dealers"
(v) "No Fault Termination"

In Witness Whereof the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

MERRILL LYNCH COMMODITIES, INC.

By: _____
Name: Barry Goldblatt
Title: Managing Director
Date: _____

JP MORGAN CHASE BANK, NATIONAL ASSOCIATION

By: _____
Name: ERIC W. BONATE
Title: V.P.
Date: _____

Exhibit A

GUARANTEE OF MERRILL LYNCH & CO., INC.

FOR VALUE RECEIVED, receipt of which is hereby acknowledged, MERRILL LYNCH & CO., INC., a corporation duly organized and existing under the laws of the State of Delaware ("ML & CO."), hereby unconditionally guarantees to _____ (the "Company"), the due and punctual payment of any and all amounts payable by **Merrill Lynch Commodities, Inc.**, a corporation organized under the laws of the State of Delaware ("MLCI"), its successors and permitted assigns, to the extent such successors or permitted assigns are direct or indirect subsidiaries of ML & Co., under the terms of the _____ **Master Agreement** between the Company and MLCI, dated as of _____ (the "Agreement"), including, in case of default, interest on any amount due, when and as the same shall become due and payable, whether on the scheduled payment dates, at maturity, upon declaration of termination or otherwise, according to the terms thereof. In case of the failure of MLCI punctually to make any such payment, ML & Co. hereby agrees to make such payment, or cause such payment to be made, promptly upon demand made by the Company to ML & Co.; provided, however that delay by the Company in giving such demand shall in no event affect ML & Co.'s obligations under this Guarantee. This Guarantee shall remain in full force and effect or shall be reinstated (as the case may be) if at any time any payment guaranteed hereunder, in whole or in part, is rescinded or must otherwise be returned by the Company upon the insolvency, bankruptcy or reorganization of MLCI or otherwise, all as though such payment had not been made.

ML & Co. hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement; the absence of any action to enforce the same; any waiver or consent by the Company concerning any provisions thereof; the rendering of any judgment against MLCI or any action to enforce the same; or any other circumstances that might otherwise constitute a legal or equitable discharge of a guarantor or a defense of a guarantor. ML & Co. covenants that this guarantee will not be discharged except by complete payment of the amounts payable under the Agreement. This Guarantee shall continue to be effective if MLCI merges or consolidates with or into another entity, loses its separate legal identity or ceases to exist.

ML & Co. hereby waives diligence; presentment; protest; notice of protest, acceleration, and dishonor; filing of claims with a court in the event of insolvency or bankruptcy of MLCI; all demands whatsoever, except as noted in the first paragraph hereof; and any right to require a proceeding first against MLCI.

ML & Co. hereby certifies and warrants that this Guarantee constitutes the valid obligation of ML & Co. and complies with all applicable laws. This Guarantee guarantees only payment obligations of MLCI and does not guarantee the performance of any other obligations of, including, but not limited to, physical delivery or, to the extent applicable, reporting obligations of MLCI. This Guarantee constitutes a guarantee of payment and not of collection.

This Guarantee shall be governed by, and construed in accordance with, the laws of the State of New York.

This Guarantee may be terminated at any time by notice by ML & Co. to the Company given in accordance with the notice provisions of the Agreement, effective upon receipt of such notice by the Company or such later date as may be specified in such notice; provided, however, that this Guarantee shall continue in full force and effect, and shall be irrevocable, with respect to any payment obligation of MLCI under the Agreement entered into prior to the effectiveness of such notice of termination.

This Guarantee becomes effective concurrent with the effectiveness of the Agreement, according to its terms.

IN WITNESS WHEREOF, ML & Co. has caused this Guarantee to be executed in its corporate name by its duly authorized representative.

MERRILL LYNCH & CO., INC.

By: _____

Name: _____

Title: _____

Date: _____

Merrill Lynch

COVER STATEMENT

CLIENT/COUNTERPARTY RELATIONSHIP

Dear Client/Counterparty:

Merrill Lynch is pleased to provide the attached statement of Generic Risks Associated with Over-the-Counter Derivative Transactions under this Cover Statement that concerns, among other things, the nature of our relationship with you in the context of such transactions. This statement was developed for our new and our ongoing client/counterparties in response to suggestions that OTC derivative dealers consider taking steps to ensure that market participants utilizing OTC derivatives understand their risk exposures and the nature of their relationships with dealers before they enter into OTC derivative transactions.

Merrill Lynch ("we") are providing to you and your organization ("you") the attached statement of Generic Risks Associated with Over-the-Counter Derivative Transactions in order to identify, in general terms, certain of the principal risks associated with individually negotiated over-the-counter ("OTC") derivative transactions. The attached statement does not purport to identify the nature of the specific market or other risks associated with a particular transaction.

Before entering into an OTC derivative transaction, you should ensure that you fully understand the terms of the transaction, relevant risk factors, the nature and extent of your risk of loss and the nature of the contractual relationship into which you are entering. You should also carefully evaluate whether the transaction is appropriate for you in light of your experience, objectives, financial resources, and other relevant circumstances and whether you have the operational resources in place to monitor the associated risks and contractual obligations over the term of the transaction. If you are acting as a financial adviser or agent, you should evaluate these considerations in light of the circumstances applicable to your principal and the scope of your authority.

If you believe you need assistance in evaluating and understanding the terms or risks of a particular OTC derivative transaction, you should consult appropriate advisers before entering into the transaction.

Unless we have expressly agreed in writing to act as your adviser with respect to a particular OTC derivative transaction pursuant to terms and conditions specifying the nature and scope of our advisory relationship, we are acting in the capacity of an arm's length contractual counterparty to you in connection with the transaction and not as your financial adviser or fiduciary. Accordingly, unless we have so agreed to act as your adviser, you should not regard transaction proposals, suggestions or other written or oral communications from us as recommendations or advice or as expressing our view as to whether a particular transaction is appropriate for you or meets your financial objectives.

Finally, we and/or our affiliates may from time to time take proprietary positions and/or make a market in instruments identical or economically related to OTC derivative transactions entered into with you, or may have an investment banking or other commercial relationship with and access to information from the issuer(s) of securities, financial instruments, or other interests underlying OTC derivative transactions entered into with you. We may also undertake proprietary activities, including hedging transactions related to the initiation or termination of an OTC derivative transaction with you, that may adversely affect the market price, rate index or other market factor(s) underlying an OTC derivative transaction entered into with you and consequently the value of the transaction.

GENERIC RISKS ASSOCIATED WITH

OVER-THE-COUNTER DERIVATIVE TRANSACTIONS

OTC derivative transactions, like other financial transactions, involve a variety of significant risks. The specific risks presented by a particular OTC derivative transaction necessarily depend upon the terms of the transaction and your circumstances. In general, however, all OTC derivative transactions involve some combination of market risk, credit risk, funding risk and operational risk.

Market risk is the risk that the value of a transaction will be adversely affected by fluctuations in the level or volatility of or correlation or relationship between one or more market prices, rates or indices or other market factors or by illiquidity in the market for the relevant transaction or in a related market.

Credit risk is the risk that a counterparty will fail to perform its obligations to you when due.

Funding risk is the risk that, as a result of mismatches or delays in the timing of cash flows due from or to your counterparties in OTC derivative transactions or related hedging, trading, collateral or other transactions, you or your counterparty will not have adequate cash available to fund current obligations.

Operational risk is the risk of loss to you arising from inadequacies in or failures of your internal systems and controls for monitoring and quantifying the risks and contractual obligations associated with OTC derivative transactions, for recording and valuing OTC derivative and related transactions, or for detecting human error, systems failure or management failure.

There may be other significant risks that you should consider based on the terms of a specific transaction. Highly customized OTC derivative transactions in particular may increase liquidity risk and introduce other significant risk factors of a complex character. Highly leveraged transactions may experience substantial gains or losses in value as a result of relatively small changes in the value or level of an underlying or related market factor.

Because the price and other terms on which you may enter into or terminate an OTC derivative transaction are individually negotiated, these may not represent the best price or terms available to you from other sources.

In evaluating the risks and contractual obligations associated with a particular OTC derivative transaction, you should also consider that an OTC derivative transaction may be modified or terminated only by mutual consent of the original parties and subject to agreement on individually negotiated terms. Accordingly, it may not be possible for you to modify, terminate or offset your obligations or your exposure to the risks associated with a transaction prior to its scheduled termination date.

Similarly, while market makers and dealers generally quote prices or terms for entering into or terminating OTC derivative transactions and provide indicative or mid-market quotations with respect to outstanding OTC derivative transactions, they are generally not contractually obligated to do so. In addition, it may not be possible to obtain indicative or mid-market quotations for an OTC derivative transaction from a market maker or dealer that is not a counterparty to the transaction. Consequently, it may also be difficult for you to establish an independent value for an outstanding

OTC derivative transaction. You should not regard your counterparty's provision of a valuation or indicative price at your request as an offer to enter into or terminate the relevant transaction at that value or price, unless the value or price is identified by the counterparty as firm or binding.

This brief statement does not purport to disclose all of the risks and other material considerations associated with OTC derivative transactions. You should not construe this generic disclosure statement as business, legal, tax or accounting advice or as modifying applicable law. You should consult your own business, legal, tax and accounting advisers with respect to proposed OTC derivative transactions and you should refrain from entering into any OTC derivative transaction unless you have fully understood the terms and risks of the transaction, including the extent of your potential risk of loss.

Merrill Lynch Commodities, Inc.
20 East Greenway Plaza
Suite 700
Houston, Texas 77046

CONFIRMATION – SWAP

Date: January 24, 2007

To: JPMorgan Chase Bank, National Association (*"JPMorgan"*)

From: Merrill Lynch Commodities, Inc. (*"MLCI"*)

The purpose of this confirmation (this *"Confirmation"*) is to confirm the terms and conditions of the Transaction entered into between us on the Trade Date specified below (the *"Transaction"*). This Confirmation supplements, forms part of, is subject to and constitutes a "Confirmation" under the ISDA Master Agreement between MLCI and JPMorgan dated January 24, 2007, as amended and supplemented from time to time (the *"Agreement"*). The definitions and provisions contained in the 2005 ISDA Commodity Definitions (the *"Commodity Definitions"*) and the 2000 ISDA Definitions (the *"2000 Definitions,"* and together with the Commodity Definitions, the *"Definitions"*) are incorporated into this Confirmation. Any reference to a "Swap Transaction" in the 2000 ISDA Definitions is deemed to be a reference to a "Transaction" for purposes of this Confirmation and any reference to a Transaction in a Confirmation is deemed to be a reference to a "Swap Transaction" for purposes of the 2000 ISDA Definitions. Capitalized terms used herein and not otherwise defined herein or in the Definitions shall have the meanings assigned to such terms in the Agreement for Purchase and Sale of Natural Gas between MLCI and Roseville Natural Gas Financing Authority (*"Roseville"*) dated as of January 24, 2007, as amended and supplemented from time to time (the *"Gas Agreement"*). In the event of any inconsistency between the terms and provisions used in this Confirmation and those found in the Definitions, in the Agreement or in the Gas Agreement, the terms and provisions of this Confirmation will control.

All provisions contained in the Agreement govern this Confirmation except as expressly modified below. The terms of the particular Transaction to which this Confirmation relates are as follows:

Transaction: Commodity Swap

Commodity: Natural Gas

Trade Date: January 24, 2007

Commodity Unit: MMBtu (One Million British Thermal Units)

Effective Date: January 24, 2007

Notional Quantities per Calculation Period: The Notional Quantities for the applicable Calculation Period set forth in Schedule A.

Calculation Period(s): Notwithstanding anything to the contrary in the Definitions, the Calculation Period in respect of the Fixed Amount and the Floating Amount shall be each calendar month beginning with the month indicated in Schedule A and ending on the month indicated in Schedule A. For the avoidance of doubt, each Calculation Period shall include the last day of a calendar month.

Settlement Dates: Shall be as set forth in Schedule A.

Business Day: Means any Day excluding: (1) Saturday, Sunday and any Day on which banks located in the State of California or the State of New York are required or authorized by law or other governmental action to close and (2) any Day on which the New York Mercantile Exchange or the Trustee is closed.

FLOATING AMOUNT

Floating Price Payer: JPMorgan

Floating Price: Shall mean the Commodity Reference Price. If the Commodity Reference Price has more than four decimal places, the Floating Price shall be rounded to four decimal places. If the number after the final number is five (5) or greater then the final number shall be increased by one (1), and if the number after the final number is less than five (5) then the final number shall remain unchanged.

Commodity Reference Price: The first of month index for such Calculation Period stated in U.S. Dollars, published under the heading "Spot Gas Prices; California: PG&E Citygate: avg." as reported by Natural Gas Intelligence in the relevant issue of NGI's Bidweek Survey. If NGI's Bidweek Survey should (x) cease to publish such price or there is a temporary interruption in the publication of such price or (y) cease to publish entirely, the "Commodity Reference Price" shall be (i) the first of month price per MMBtu, stated in U.S. Dollars, for natural gas to be delivered at the PG&E Citygate during the applicable Calculation Period as set forth in a mutually agreed upon alternative publication, or (ii) if the parties do not agree on an alternative publication within three Business Days, then the "Commodity Reference Price" shall be the first of month index per MMBtu, stated in U.S. Dollars, for natural gas to be delivered at a mutually agreed upon alternative delivery point during the applicable Calculation Period as set forth in a mutually agreed upon index, or (iii) if the parties do not agree on either an alternative publication or an alternative delivery point and index pursuant to (i) or (ii) above within six Business Days, then the "Commodity Reference Price" shall be determined by each party obtaining, in good faith, one quotation from an independent leading dealer or market participant in the natural gas trading market that is not an affiliate of either party (a *"Reference Dealer"*). Each Reference Dealer shall be requested to make a determination of the first of month price for natural gas to be

delivered at the PG&E Citygate during each Calculation Period stated in U.S. Dollars, taking into consideration the latest quotations and any other information they in good faith deem relevant. The "Commodity Reference Price" shall be the arithmetic mean of the amounts determined to be the "Commodity Reference Price" by such Reference Dealers, which such calculation shall be binding and conclusive absent manifest error.

FIXED AMOUNT

Fixed Price Payer: MLCI

Fixed Price: $7.73 per MMBtu of natural gas.

ADDITIONAL PROVISIONS

1. The termination of the Gas Agreement pursuant to Sections 22.4.1 or 26 thereof shall be an Additional Termination Event as defined in Section 5(b)(v) of the Agreement, in which case MLCI shall be the Affected Party and the Settlement Amount shall be $0.00. For clarity, the Parties agree that they shall remain responsible for the payment of any Unpaid Amounts.

2. It shall constitute an Additional Termination Event as defined in Section 5(b)(v) of the Agreement with JPMorgan as the Affected Party, if a Bank Downgrade Event (as defined below) shall occur. A *"Bank Downgrade Event"* means if at any time during the term of the Agreement, Moody's fails to assign a credit rating of at least "A1," S&P fails to assign a credit rating of at least "A+" or Fitch fails to assign a credit rating of at least "A+" to the long-term, unsecured and unsubordinated indebtedness of JPMorgan (whether such failure is by assignment of a rating classification below the applicable threshold or by withdrawal, suspension or other failure to assign any credit rating).

3. The "Events of Default" specified in Section 5(a) and the Termination Events specified in Section 5(b) will apply to MLCI and to JPMorgan.

(a) Notwithstanding the provisions of Section 6(a) regarding "Right to Terminate Following Event of Default" or Section 6(b) regarding "Right to Terminate Following Termination Event," upon the occurrence of any Event of Default or Termination Event in which JPMorgan is the Defaulting Party or the Affected Party, the sole remedy for MLCI and JPMorgan shall be as follows:

(1) MLCI shall obtain an assignee to which JPMorgan can assign the rights of, and which will assume all the obligations of JPMorgan under the Agreement (or, if the Commodity Swap is then in existence and an Early Termination Date with respect to the Commodity Swap has not otherwise occurred, then under both the Agreement and the Commodity Swap) within 30 days of the occurrence of such Event of Default or Termination Event, and with consent by JPMorgan to such assignment not to be unreasonably withheld. *"Commodity Swap"* means the swap transaction between JPMorgan and Roseville entered into

(together with the Transaction described in this Confirmation) as part of the transaction involving the issuance of the Bonds.

(2) If an assignment has not occurred within the period of time provided for in the foregoing clause 3(a)(1), such failure shall constitute an Additional Termination Event as defined in Section 5(b)(v) of the Agreement, an Early Termination Date will occur immediately upon such Additional Termination Event, JPMorgan shall be the Affected Party, and the Settlement Amount shall be $0.00. For clarity, the Parties agree that they shall remain responsible for the payment of any Unpaid Amounts.

(b) Notwithstanding the provisions of Section 6(a) regarding "Right to Terminate Following Event of Default" or Section 6(b) regarding "Right to Terminate Following Termination Event," upon the occurrence of any Event of Default or Termination Event in which (i) MLCI is the Defaulting Party or the Affected Party, and (ii) results in an Early Termination, the Settlement Amount shall be $0.00. For clarity, the Parties agree that they shall remain responsible for the payment of any Unpaid Amounts.

4. *Payments*. (a) All payments to be made by MLCI to JPMorgan hereunder shall be made to:

Pay: JPMorgan Chase Bank, N.A.
ABA #021000021
Acct. #9009000267
Attn: Commodity Processing

(b) All payments to be made by JPMorgan to MLCI hereunder shall be made directly to:

Pay: JPMorgan Chase Bank, New York, NY

For the account of: Merrill Lynch Commodities, Inc.
Account No./CHIPA UIS 332-009-980
Fed ABA No. 021-000-021

If this Confirmation correctly sets forth the terms of the Transaction that we have entered into, please promptly confirm in a reply to us by signing below. The parties hereto agree that this Confirmation, whether received in original or facsimile form, may be executed in counterparts, which execution may be effected by means of facsimile transmission, and which when taken together shall constitute a single and original agreement between us and a binding supplement to the ISDA Agreement once completed. Where execution is effected by means of facsimile transmission, the parties agree that the sender's signature as printed by the recipient's facsimile machine shall be deemed to be the sender's original signature.

JPM Ref # 5269768

IN WITNESS WHEREOF the parties have executed this Confirmation as of the date first above written.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By _____
Name: ALBERTO J. ATIENZA
Title: ASSOCIATE
SS

By _____
Name: _____
Title: _____

MERRILL LYNCH COMMODITIES, INC.

By _____
Name: _____
Title: _____

By _____
Name: _____
Title: _____

IN WITNESS WHEREOF the parties have executed this Confirmation as of the date first above written.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By _____
Name: _____
Title: _____

By _____
Name: _____
Title: _____

MERRILL LYNCH COMMODITIES, INC.

KLF

By _____
Name: David Goodman
Title: Managing Director

By _____
Name: _____
Title: _____

Schedule A: MLCI with JPMorgan Chase Bank, N.A.

Calculation Period	Settlement Date	Notional Quantities
01/2008	02/25/2008	186,000
02/2008	03/25/2008	145,000
03/2008	04/25/2008	77,500
04/2008	05/27/2008	75,000
05/2008	06/25/2008	93,000
06/2008	07/25/2008	135,000
07/2008	08/25/2008	372,000
08/2008	09/25/2008	372,000
09/2008	10/27/2008	300,000
10/2008	11/25/2008	186,000
11/2008	12/25/2008	240,000
12/2008	01/25/2009	170,500
01/2009	02/25/2009	186,000
02/2009	03/25/2009	140,000
03/2009	04/27/2009	77,500
04/2009	05/25/2009	75,000
05/2009	06/25/2009	93,000
06/2009	07/27/2009	135,000
07/2009	08/25/2009	372,000
08/2009	09/25/2009	372,000
09/2009	10/26/2009	300,000
10/2009	11/25/2009	186,000
11/2009	12/28/2009	240,000
12/2009	01/25/2010	170,500
01/2010	02/25/2010	186,000
02/2010	03/25/2010	140,000
03/2010	04/26/2010	77,500
04/2010	05/25/2010	75,000
05/2010	06/25/2010	93,000
06/2010	07/26/2010	135,000
07/2010	08/25/2010	372,000
08/2010	09/27/2010	372,000
09/2010	10/25/2010	300,000
10/2010	11/26/2010	186,000
11/2010	12/27/2010	240,000
12/2010	01/25/2011	170,500
01/2011	02/25/2011	186,000
02/2011	03/25/2011	140,000
03/2011	04/25/2011	77,500
04/2011	05/25/2011	75,000
05/2011	06/27/2011	93,000
06/2011	07/25/2011	135,000
07/2011	08/25/2011	372,000
08/2011	09/26/2011	372,000
09/2011	10/25/2011	300,000
10/2011	11/25/2011	186,000
11/2011	12/27/2011	240,000
12/2011	01/25/2012	170,500
01/2012	02/27/2012	186,000
02/2012	03/26/2012	145,000
03/2012	04/25/2012	77,500
04/2012	05/25/2012	75,000
05/2012	06/25/2012	93,000
06/2012	07/25/2012	135,000
07/2012	08/27/2012	372,000
08/2012	09/25/2012	372,000
09/2012	10/25/2012	300,000
10/2012	11/26/2012	186,000
11/2012	12/26/2012	240,000
12/2012	01/25/2013	170,500
01/2013	02/25/2013	186,000
02/2013	03/25/2013	140,000
03/2013	04/25/2013	77,500

Schedule A: MLCI with JPMorgan Chase Bank, N.A.

Calculation Period	Settlement Date	Notional Quantities
01/2008	02/25/2008	198,000
04/2013	05/28/2013	75,000
05/2013	06/25/2013	93,000
06/2013	07/25/2013	135,000
07/2013	08/26/2013	372,000
08/2013	09/25/2013	372,000
09/2013	10/25/2013	300,000
10/2013	11/25/2013	198,000
11/2013	12/26/2013	240,000
12/2013	01/27/2014	170,500
01/2014	02/25/2014	198,000
02/2014	03/25/2014	140,000
03/2014	04/25/2014	77,500
04/2014	05/27/2014	75,000
05/2014	06/25/2014	93,000
06/2014	07/25/2014	135,000
07/2014	08/25/2014	372,000
08/2014	09/25/2014	372,000
09/2014	10/27/2014	300,000
10/2014	11/25/2014	198,000
11/2014	12/26/2014	240,000
12/2014	01/26/2015	170,500
01/2015	02/25/2015	198,000
02/2015	03/25/2015	140,000
03/2015	04/27/2015	77,500
04/2015	05/26/2015	75,000
05/2015	06/25/2015	93,000
06/2015	07/27/2015	135,000
07/2015	08/25/2015	372,000
08/2015	09/25/2015	372,000
09/2015	10/26/2015	300,000
10/2015	11/25/2015	198,000
11/2015	12/28/2015	240,000
12/2015	01/25/2016	170,500
01/2016	02/25/2016	198,000
02/2016	03/28/2016	145,000
03/2016	04/25/2016	77,500
04/2016	05/25/2016	75,000
05/2016	06/27/2016	93,000
06/2016	07/25/2016	135,000
07/2016	08/25/2016	372,000
08/2016	09/26/2016	372,000
09/2016	10/25/2016	300,000
10/2016	11/25/2016	198,000
11/2016	12/27/2016	240,000
12/2016	01/25/2017	170,500
01/2017	02/27/2017	198,000
02/2017	03/27/2017	140,000
03/2017	04/25/2017	77,500
04/2017	05/25/2017	75,000
05/2017	06/26/2017	93,000
06/2017	07/25/2017	135,000
07/2017	08/25/2017	372,000
08/2017	09/25/2017	372,000
09/2017	10/25/2017	300,000
10/2017	11/27/2017	198,000
11/2017	12/26/2017	240,000
12/2017	01/25/2018	170,500
01/2018	02/26/2018	198,000
02/2018	03/26/2018	140,000
03/2018	04/25/2018	77,500
04/2018	05/25/2018	75,000
05/2018	06/25/2018	93,000

Schedule A: MLCI with JPMorgan Chase Bank, N.A.

Calculation Period	Settlement Date	Notional Quantities
01/2006	02/25/2006	186,000
06/2016	07/25/2016	135,000
07/2016	08/27/2016	372,000
08/2016	09/25/2016	372,000
09/2016	10/25/2016	300,000
10/2016	11/28/2016	186,000
11/2016	12/28/2016	240,000
12/2016	01/25/2019	170,500
01/2019	02/25/2019	186,000
02/2019	03/25/2019	140,000
03/2019	04/25/2019	77,500
04/2019	05/28/2019	75,000
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12/2027	01/25/2028	170,500

FSA

CUSTOMER INSURANCE POLICY COMMITMENT

Obligor: City of Roseville, California (the "Obligor" or the "City")

Insured Obligations: Amounts due and payable by the Obligor under the Supply Agreement, as further described below, subject to the Policy Limit

Insured Party: Roseville Natural Gas Financing Authority, a California joint exercise of powers agency (the "Insured Party" or the "Authority")

Premium: 0.56% of the maximum 60-day gas volume times an assumed price of $30/mmBTU

Date of Commitment: January 26, 2007 Expiration Date: Friday, February 23, 2007*

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") hereby commits to issue to the Insured Party a financial guaranty (the "Policy") in the form attached hereto as Exhibit B, subject to the terms and conditions set forth in this Commitment.

To keep this Commitment in effect after the Expiration Date set forth above, a request for renewal must be submitted to Financial Security prior to such Expiration Date. Financial Security reserves the right to refuse wholly or in part to grant a renewal.

The Policy will terminate in accordance with its terms when all Insured Obligations have been paid or the Natural Gas Supply Agreement (the "Supply Agreement") between the Obligor and the Insured Party has been terminated and all surviving obligations of the Obligor to pay Gas Payments have been satisfied.

THE POLICY SHALL BE ISSUED ON THE DATE OF ISSUANCE OF THE INSURED PARTY'S GAS REVENUE BONDS, 2007 SERIES A, IF THE FOLLOWING CONDITIONS ARE SATISFIED WITH RESPECT TO THE TRANSACTION:

1. The Supply Agreement shall be acceptable in form and substance to Financial Security and shall have been executed and delivered by each of the Obligor and the Insured Party.

2. The Obligor shall have entered into a Reimbursement Agreement with Financial Security in the form attached hereto as Exhibit E.

3. Subject to the provisions of the Policy, the Insured Obligations shall consist of the obligations of the Obligor under the Supply Agreement to pay the Insured Party for gas delivered or tendered during the Term of the Supply Agreement.

4. The Trust Indenture shall be acceptable in form and substance to Financial Security.

5. Financial Security shall have received executed copies of the opinions of counsel described in Exhibit A.

6. The Policy Limit shall be a dollar amount equal to the maximum volume of gas to be delivered in any sixty-day period during the term of the Supply Agreement multiplied by $40.00 per mmBTU.

7. The Insured Party shall have signed and returned to Financial Security this Commitment.

8. Financial Security shall be provided with:

   (a) executed copies of all components of the Supply Agreement and the Reimbursement Agreement, and

(b) opinions of counsel as shall be acceptable to Financial Security (i) in form and substance acceptable to Financial Security, (ii) containing only such qualifications as shall be acceptable to Financial Security, and (iii) as to the matters set forth in Exhibit A hereto.

10. Promptly after the closing of the Bonds, Financial Security shall receive three completed sets of all executed transaction documents (one original and either (i) two photocopies (each unbound) or (ii) three compact discs).

We look forward to working with you on this transaction.

FINANCIAL SECURITY ASSURANCE INC.

Authorized Officer

To keep this commitment in effect to the Expiration Date set forth on the first page, Financial Security must receive a duplicate of this Commitment executed by an appropriate officer of Roseville Natural Gas Financing Authority by the earlier of the date on which the Preliminary Official Statement containing disclosure language regarding Financial Security is circulated or ten days from the date hereof.

The undersigned agrees that if the Obligor's obligations under the Supply Agreement shall have the benefit of credit enhancement, such credit enhancement shall be provided by Financial Security in accordance with the terms of this Commitment.

Accepted as of February 1, 2007 by

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

By: W. Craig Robinson

Name: W. Craig Robinson

Title: Executive Director

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OPINION REQUIREMENTS

Financial Security shall have received opinions of counsel to the effect of the following:

With respect to the Obligor:

1. Each of the Supply Agreement and the Reimbursement Agreement has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Obligor, enforceable in accordance with its terms.

2. The payment obligations of the Obligor under the Supply Agreement constitute an operating expense and are payable from electric generation revenues prior to debt service on the Obligor's debt obligations that are payable from electric generation revenues. The Obligor is obligated to impose rates, fees, and charges at such levels as to produce electric generation revenues sufficient in amount to pay as they come due the obligations of the Obligor under the Supply Agreement, and such obligation is enforceable by the Authority or its assignee.

3. There is no litigation or other proceeding pending or, to the best of counsel's knowledge, threatened in any court, agency or other administrative body (either State or Federal) which could have a material adverse effect on (a) the financial condition of the Obligor, (b) the ability of the Obligor to perform its obligations under the Supply Agreement, (c) the transactions contemplated by the Supply Agreement or the Trust Indenture or (e) the ability of the Obligor to maintain and operate the electric supply system.

With respect to the Authority:

4. The Supply Agreement has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Authority, enforceable in accordance with its terms.

5. The Trust Indenture has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Authority, enforceable in accordance with its terms.

6. The Gas Purchase Agreement has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Authority, enforceable in accordance with its terms.

7. There is no litigation or other proceeding pending or, to the best of counsel's knowledge, threatened in any court, agency or other administrative body (either State or Federal) which could have a material adverse effect on (a) the financial condition of the Authority, (b) the ability of the Authority to perform its obligations under the Supply Agreements, the Purchase Agreements or the Trust Indenture, (c) the transactions contemplated by the Supply Agreement or the Trust Indenture or (e) the ability of the Authority to maintain and operate the Project.

Exhibit B
Form of Policy

FINANCIAL GUARANTY INSURANCE POLICY

OBLIGOR: City of Roseville, California

Policy No.: ######-XXX

Date of Issuance: [issue date]

OBLIGATIONS: As Defined in Endorsement No. 1

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Holder, subject only to the terms of this Policy (which includes each endorsement hereto), the full and complete payment by the Obligor of Scheduled Payments of principal of, and interest on, the Obligations.

For the further protection of each Holder, Financial Security irrevocably and unconditionally guarantees payment of any amount required to be paid under this Policy by Financial Security following Financial Security's receipt of notice as described in Endorsement No. 1 hereto.

Financial Security shall be subrogated to the rights of each Holder to receive payments under the Obligations to the extent of any payment by Financial Security hereunder.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Holder" means the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Obligor for such purpose or, if the Obligation is in bearer form, the holder of the Obligation. "Scheduled Payments" means payments which are scheduled to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Obligor, (b) an election by the Obligor to pay principal on an accelerated basis or (c) any other cause, shall not constitute "Scheduled Payments" unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" shall have the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto, or by the merger, consolidation or dissolution of the Obligor. Except to the extent expressly modified by an endorsement hereto, the premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By _____
Authorized Officer

31 West 52nd Street, New York, New York 10019
(212) 826-0100
Form 100xNY (5/89)

Exhibit B
Form of Policy

ENDORSEMENT NO. 1 TO
FINANCIAL GUARANTY INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE INC.

OBLIGOR: City of Roseville, California (herein, "City" or "Obligor")

OBLIGATIONS: as defined below

Policy No.: ######-XXX

Date of Issuance: [issue date]

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to the Holder, subject only to the terms of this Policy (which includes each endorsement hereto), the full and complete payment by the Obligor of Scheduled Payments on the Obligations.

1. Definitions. For all purposes of this Policy, the terms specified below shall have the meanings or constructions provided below. Capitalized terms used herein and not otherwise defined herein shall have the meanings provided in the Supply Agreement unless the context shall otherwise require.

"Authority" means the Roseville Natural Gas Financing Authority.

"Business Day" means any day other than (i) a Saturday or Sunday or (ii) a day on which banking institutions in the City of New York are authorized or obligated by law or executive order to be closed.

"Holder" shall mean, notwithstanding any contrary definition set forth on the face of this Policy, the Authority, or the Trustee as the Authority's assignee.

"Obligations" means the Gas Payments as such term is defined in the Supply Agreement.

"Policy" means this Financial Guaranty Insurance Policy and includes each endorsement thereto.

"Policy Limit" means $_____ in the aggregate.

"Purchaser Material Default" shall have the meaning assigned thereto in the Supply Agreement (disregarding for this purpose any payments made or other curative actions by Customer Insurance Provider).

"Receipt" and "Received" mean actual delivery to Financial Security and to the Fiscal Agent (as defined below), if any, prior to 12:00 noon, New York City time, on a Business Day; delivery either on a day that is not a Business Day, or after 12:00 noon, New York City time, shall be deemed to be receipt on the next succeeding Business Day.

"Scheduled Payments" means, notwithstanding any contrary definition set forth on the face of this Policy, on any Payment Date, the lesser of (i) the amount of any Obligations that the Obligor has failed to pay pursuant to the terms and conditions of the Supply Agreement or (ii) the positive difference between (X) the Policy Limit and (Y) the sum of all Scheduled Payments that have previously been paid by Financial Security or that are the subject of pending claims for payment hereunder. Scheduled Payments shall not include, nor shall coverage be provided under this Policy in respect of, any interest or penalties, any taxes, withholdings or other charges imposed by any governmental or regulatory authority, any Imbalance Charges, transportation costs, or early termination damages. Scheduled Payments shall not in the aggregate exceed the Policy Limit. Notwithstanding

the use of the terms "principal" and "interest" in this Policy, it is understood that Scheduled Payments do not refer to payments of principal and interest on any obligation but include the amounts referred to in the definition of "Obligations" herein. For the avoidance of doubt, "Obligations" and "Scheduled Payments" shall specifically exclude any payment obligations of the Obligor accruing after the termination of the Supply Agreement.

"Supply Agreement" means the Natural Gas Supply Agreement between Obligor and the Authority dated as of _____ 1, 2007, as in effect as of the date hereof without giving effect to any subsequent amendment, modification or supplement of or to such sections, clauses, paragraphs or definitions, except for any subsequent amendment, modification or supplement made with the prior written consent of Financial Security.

"Term of This Policy" means the period from and including the Date of Issuance to and including the earlier to occur of (i) the date on which all Scheduled Payments have been paid or (ii) thirty days after the date the Supply Agreement terminates either at the end of its stated term or pursuant to an earlier termination.

"Trustee" means The Bank of New York Trust Company, N.A., as trustee under the Trust Indenture with the Authority relating to the issuance of Gas Revenue Bonds, 2007 Series A, dated as of _____, 2007, and any successor trustee under said Trust Indenture.

2. Notices and Conditions to Payment in Respect of Scheduled Payments. Following Receipt by Financial Security of a notice, certificate and assignment (together with any attachments thereto, a "Certificate") from the Trustee in the form attached as Exhibit A to this Endorsement No. 1 (properly completed, executed and delivered to Financial Security no later than one (1) Business Day prior to the payment date specified in such Certificate), Financial Security will pay an amount equal to the applicable Scheduled Payment out of the funds of Financial Security at or prior to 12:00 noon, New York City time, on the second (2nd) Business Day following such Receipt (the "Payment Date"). Payments due hereunder in respect of Scheduled Payments will be disbursed by wire transfer of immediately available funds to the account of the Holder as specified by the Trustee. No more than two (2) Scheduled Payments shall be payable hereunder.

Financial Security shall be entitled to pay any amount hereunder in respect of Scheduled Payments on the Obligations whether or not any notice and certificate shall have been Received by Financial Security as provided above. Financial Security's obligations hereunder in respect of Scheduled Payments shall be discharged to the extent funds are disbursed by Financial Security as provided herein whether or not such funds are properly applied by the Authority or the Trustee.

3. Insolvency of Obligor. The Holder, by acceptance of this Policy, agrees that Financial Security may at any time during the continuation of any proceeding by or against the Obligor commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding. In addition, and without limitation of the foregoing, as set forth in paragraph 7 hereof, Financial Security shall be subrogated to, and the Holder hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Holder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding action with respect to any court order issued in connection with any such Insolvency Proceeding.

4. Demand for Payment. Notwithstanding anything to the contrary contained in this Policy, no payment shall be made by Financial Security hereunder unless a Purchaser Material Default has occurred and a completed and signed Certificate is presented to Financial Security by the Trustee.

5. Governing Law. This Policy shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof.

6. Fiscal Agent. At any time during the Term of this Policy, Financial Security may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Holder at the notice address specified in the Master Agreement specifying the name and notice address of the Fiscal Agent. From and after the date of receipt of such notice by the Holder, (i) copies of all notices and documents required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Fiscal Agent and to Financial Security and shall not be deemed Received until Received by both, and (ii) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Fiscal Agent on behalf of Financial Security. The Fiscal Agent is the agent of Financial Security only and the Fiscal Agent shall in no event be liable to any Holder for any acts of the Fiscal Agent or any failure of Financial Security to deposit, or cause to be deposited, sufficient funds to make payments due under the Policy.

7. Rights of Subrogation; No Discharge. Financial Security shall, to the extent it makes any Scheduled Payment, become subrogated to the rights of the Holder to receive such Scheduled Payment.

8. Notices; Service of Process. All notices to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied immediately confirmed by mail or delivery to Financial Security at 31 W. 52nd St., New York, New York 10019 Attention: Managing Director - Surveillance Telecopy No.: (212) 339-3556 Confirmation: (212) 826-0100, or such different address or addresses in substitution for the above as shall be specified by Financial Security by writing mailed or delivered to the Holder.

Financial Security hereby appoints and designates its General Counsel as its true and lawful attorney and duly authorized agent for acceptance of service of legal process and agrees that service of such process upon such person shall constitute personal service of such process upon it.

9. Priorities. In the event that any term or provision on the face of this Policy is inconsistent with provisions of this Endorsement No. 1, the provisions of this Endorsement No. 1 shall take precedence and be binding.

10. Exclusions From Insurance Guaranty Funds. This Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. This Policy is not covered by the Florida Insurance Guaranty Association created under Part II of Chapter 631 of the Florida Insurance Code. In the event Financial Security were to become insolvent, any claims arising under this Policy are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

11. Surrender of Policy. The Holder shall surrender this Policy to Financial Security for cancellation upon expiration of the Term of this Policy but any failure of the Holder to do so shall not extend the Term of This Policy past the date on which it would otherwise occur.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto, or by the merger, consolidation of dissolution of the Obligor. Except to the extent expressly modified by an endorsement hereto, the premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity, or early termination of the Supply Agreement. This Policy may not be canceled or revoked during the Term of this Policy.

Exhibit B
Form of Policy

Date of Issuance: [issue date]

Policy No. ######-XXX

IN WITNESS WHEREOF, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

Exhibit B
Form of Policy

Date of Issuance: [issue date]

Policy No. ######-XXX

Exhibit A
To Endorsement No. 1

NOTICE OF CLAIM, CERTIFICATE AND ASSIGNMENT

Financial Security Assurance Inc.
31 W. 52nd Street
New York, NY 10019

_____
[date of notice]

The undersigned, a duly authorized officer of [insert name of trustee bank], as Trustee under the Trust Indenture dated as of _____, 2007 (the "Trust Indenture"), between the Roseville Natural Gas Authority (the "Authority") and said Trustee, hereby certifies to Financial Security Assurance Inc. ("Financial Security"), with reference to Financial Guaranty Insurance Policy No. ######-XXX dated [issue date] (the "Policy") issued by Financial Security in respect of the contractual amounts due for payment by the City of Roseville, California (the "Obligor") pursuant to the Natural Gas Supply Agreement between the Authority and the Obigor (the "Supply Agreement") dated as of _____ 1, 2007 (the "Authority"), that:

(i) the Holder is the beneficiary of the Policy.

(ii) the Holder is the seller under the Suppy Agreement and there is no other seller thereunder.

(iii) a Purchaser Material Default (as such term is defined in the Supply Agreement) has occurred and the Supply Agreement was or will be terminated (other than with respect to obligations that survive termination pursuant to Section ___ of the Supply Agreement) on or prior to the date of this Notice of Claim, Certificate and Assignment.

(iv) in accordance with the Trust Indenture, amounts payable by the Obligor under the Supply Agreement no longer constitute "Revenues" under the Trust Indenture and any amounts received by the Trustee from the Obligor after the date of termination of the Supply Agreement shall be remitted promptly to Financial Security.

(v) the Obligor is required to pay the Obligations in accordance with the Supply Agreement and neither the Obligor nor any other person has satisfied such requirement.

(vi) the Holder has not, after [issue date], agreed to any consent, amendment, modification, supplement or waiver (a "Modification") of any provision of the Supply Agreement, other than (A) a Modification to which Financial Security has delivered its prior written consent or (B) a Modification providing for a change to or addition or removal of one or more Delivery Points.

(vii) the Holder has not previously made a conforming demand under the Policy for the Scheduled Payment demanded pursuant hereto.

(viii) the amount of the Scheduled Payment due is $_____, such amount, together with all other Scheduled Payments that are the subject of prior conforming demands under the Policy, does not exceed the Policy Limit and does not exceed the amount due and payable by the Obligor under the Supply Agreement in respect of the Obligations for Contract Gas delivered or tendered during the Month of _____, _____ [month/year].

(ix) Such amount is requested to be paid on _____ [date not less than one (1) Business Day after the date this Notice of Claim and Certificate is delivered to Financial Security].

(x) Payment by Financial Security under the Policy should be made by wire transfer directed to [specify the account and account details].

Date of Issuance: [issue date]

Policy No. ######-XXX

The Holder hereby irrevocably and unconditionally assigns, transfers and conveys to Financial Security all right, title and interest of the Holder with respect to the Obligations and the Supply Agreement (except (1) the right to indemnification under the Supply Agreement for claims arising prior to, or with respect to the period prior to, such assignment to Financial Security, (2) the right to receive all other amounts payable to the Obligor under the Supply Agreement after Financial Security has received the following amounts (i) all amounts paid by Financial Security under the Policy and required to be paid to Financial Security (as assignee or subrogee of the Holder or otherwise) by the Obligor pursuant to the Supply Agreement, including interest on amounts paid under the Policy as provided in the Supply Agreement, and (ii) all costs and expenses incurred by Financial Security in the exercise of remedies under the Supply Agreement). The foregoing assignment is in addition to, and not in limitation of, any rights otherwise available to Financial Security in respect of payments made by it under the Policy. The Holder shall take such action and deliver such instruments as may be reasonably requested or required by Financial Security to effectuate the purpose or provisions of this paragraph. The Holder hereby waives any right it may have to object to such assignment, transfer and conveyance on the basis that such assignment, transfer and conveyance shall fail to conform with any of the requirements set forth in the Supply Agreement, the Trust Indenture, or any other document, instrument or agreement. The Holder agrees to pay all of its own costs and expenses of the foregoing assignment, transfer and conveyance and shall pay all of the costs and expenses (including, without limitation, fees and expenses of counsel) incurred in connection with such assignment, transfer and conveyance. The Holder hereby appoints Financial Security as agent and attorney-in-fact for the Holder in any legal proceeding with respect to the Obligations to the extent of any payments made by Financial Security with respect to such Obligations.

The Holder hereby agrees that Financial Security may at any time during the continuation of any proceeding by or against the Obligor under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding to the extent the Holder would otherwise be so entitled. In addition, the Holder hereby agrees that Financial Security shall be subrogated to, and the Holder hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Holder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of the Holder as a party to any adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Following the receipt in full by Financial Security of (A) all amounts paid by Financial Security (as assignee or subrogee of the Holder or otherwise) under the Policy and required to be paid to Financial Security by the Obligor pursuant to the Supply Agreement and the Reimbursement Agreement between Financial Security and the Obligor, including interest on amounts paid under the Policy, and (B) all costs and expenses incurred by Financial Security in the exercise of remedies under the Supply Agreement and/or the Trust Indenture, the Holder shall be entitled to any excess proceeds received by Financial Security pursuant to the Supply Agreement (the "Excess Proceeds").

Unless the context otherwise requires, capitalized terms used in this Notice of Claim and Certificate and not defined herein shall have the meanings provided in the Policy.

Exhibit B
Form of Policy

Date of Issuance: [issue date]

Policy No. ~~#####~~ XXX

IN WITNESS WHEREOF, the Holder has executed and delivered this Notice of Claim, Certificate and Assignment as of the ____ day of _____, ____.

[Name of Holder]

By: _____
Title:

For Financial Security or
Fiscal Agent Use Only

Wire transfer sent on _____ By _____
Confirmation Number _____

Exhibit C

FORM OF
CUSTOMER INSURANCE PROVIDER REIMBURSEMENT AGREEMENT

(follows)

REIMBURSEMENT AGREEMENT

REIMBURSEMENT AGREEMENT dated as of _____, 2007 between FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") and the City of Roseville (the "City").

INTRODUCTORY STATEMENTS

The parties hereto desire to specify the conditions precedent to the issuance of the Policy by Financial Security, the indemnity and reimbursement to be provided by the City in respect of amounts paid by Financial Security under a Policy or otherwise and certain other matters.

In consideration of the premises and of the agreements herein contained, Financial Security and the City hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01. Definitions. Capitalized terms used herein shall have the meanings provided in Appendix I hereto unless the context otherwise requires.

ARTICLE II
REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.01. Representations and Warranties of the City. The City represents, warrants and covenants as follows:

(a) Due Organization and Qualification. The City is a municipal corporation and chartered city of the State of California. The City is in good standing under the laws of the state in which it is organized and has obtained all necessary licenses, permits, charters, registrations and approvals (together, "approvals") necessary for the conduct of its Electric Enterprise business as currently conducted and the performance of its obligations under the City Documents.

(b) Power and Authority. The City has all necessary power and authority under the Act to conduct its Electric Enterprise business as currently conducted, to execute, deliver and perform its obligations under the City Documents and to consummate the Transaction.

(c) Due Authorization. The execution, delivery and performance of the City Documents by the City have been duly authorized by all necessary corporate action and do not require any additional approvals or consents or other action by or any notice to or filing with any Person, including, without limitation, any governmental entity.

(d) Legal Proceedings. As of the dated date hereof, there is no action, proceeding or investigation by or before any court, governmental or administrative agency or arbitrator against or affecting the City, or any properties of the Electric Enterprise or rights of the City with respect to the Electric Enterprise, pending or, to the City's knowledge, threatened, which, in any case, if decided adversely to the City, would result in a Material Adverse Change with respect to the City.

(e) Valid and Binding Obligations. The City Documents, when executed and delivered by the City, will constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency,

reorganization, moratorium or other similar laws affecting creditors' rights generally and general equitable principles.

(f) No Conflict. The City Documents do not violate any material document, instrument or agreement to which the City is a party or by which any of its property, funds or assets relating to the Electric Enterprise may be encumbered, repossessed, or foreclosed upon, including, without limitation, the City Security Document, if any.

(g) Financial and Demographic Information. The City has previously supplied to Financial Security the Underwriting Information. City represents and warrants that (i) the Underwriting Information is accurate as of its date and does not contain any statement of a material fact that was untrue or misleading in any material respect when made, (ii) there is no fact known to the City that has a material possibility of causing a Material Adverse Change with respect to the Electric Enterprise, (iii) since the furnishing of the Underwriting Information, there has been no change nor any development or event involving a prospective change known to the City that would render any of the Underwriting Information untrue or misleading in a material respect.

(h) Incorporation of Representations and Warranties from Supply Agreement. The City agrees that Financial Security may rely on the representations and warranties of the City contained in the Supply Agreement as though such representations and warranties were fully set forth herein, regardless of any amendment, modification, supplement, termination or waiver of the Supply Agreement.

Section 2.02. Affirmative Covenants of the City. The City hereby agrees that during the Term of the Agreement, unless Financial Security shall otherwise expressly consent in writing:

(a) Compliance With Agreements and Applicable Laws. The City shall perform each of its obligations under the City Documents and comply with all requirements of any law, rule or regulation applicable to its ownership or operation of the Electric Enterprise where such failure to comply would result in a Material Adverse Change.

(b) Corporate Existence. The City shall maintain its existence as a body corporate and politic and shall at all times continue to be organized and existing under the Act and duly authorized under the Act and shall conduct its Electric Enterprise business in accordance with the terms of its organizational documents.

(c) Access to Records; Discussions With Officers and Accountants. The City shall, upon the request of Financial Security, permit Financial Security or its authorized agents:

(i) to inspect the books and records of the City as they may relate to the Transaction, and the obligations of the City under the City Documents;

(ii) to discuss the affairs, finances and accounts of the City's Electric Enterprise with the Chief Financial Officer of the City; and

(iii) during and after the occurrence of a Purchaser Material Default, to discuss the affairs, finances and accounts of the City's Electric Enterprise with the City's independent accountants, provided that an officer of the City shall have the right to be present during such discussions.

Such inspections and discussions shall be conducted during normal business hours and shall not unreasonably disrupt the business of the City. The books and records of the City will be

maintained at the address of the City designated herein for receipt of notices, unless the City shall otherwise advise the parties hereto in writing.

Section 2.03. Negative Covenant of the City. The City hereby agrees that during the Term of the Agreement, unless Financial Security shall otherwise expressly consent in writing, the City shall not create, incur or suffer to exist, or agree to create, incur or suffer to exist, or consent to cause or permit in the future (upon the happening of a contingency or otherwise) the creation, incurrence or existence of any Lien on the Payment Source to or for the benefit of any seller of natural gas that would provide such party with a right to payment that is prior to the rights of the Authority (or Financial Security as assignee or subrogee of the Authority) to payment under the Supply Agreement and of Financial Security hereunder. Any Lien on the Payment Source in contravention of this Section 2.03 shall be null and void.

ARTICLE III
THE POLICY; REIMBURSEMENT; INDEMNIFICATION

Section 3.01. Issuance of the Policy. Financial Security agrees to issue the Policy subject to satisfaction of the conditions precedent set forth below and in the Commitment:

(a) Payment of Premium and Expenses. Financial Security shall have been paid a nonrefundable Premium.

(b) Related Documents. Financial Security shall have received a copy of each of the City Documents, in form and substance satisfactory to Financial Security, duly authorized, executed and delivered by each party thereto.

(c) Opinions of Counsel. Financial Security shall have received opinions of counsel as set forth in its Customer Insurance Policy Commitment.

(d) No Litigation, Etc. No suit, action or other proceeding, investigation, or injunction or final judgment relating thereto, shall be pending or threatened before any court or governmental agency in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with any of the City Documents or the consummation of the Transaction.

(e) Legality. No statute, rule, regulation or order shall have been enacted, entered or deemed applicable by any government or governmental or administrative agency or court which would make the transactions contemplated by any of the City Documents illegal or otherwise prevent the consummation thereof.

(f) Satisfaction of Conditions. The City Documents shall have been executed and delivered by the parties thereto.

(g) No Default. No Default or Event of Default shall have occurred.

(h) Additional Items. Financial Security shall have received such other documents, instruments, approvals or opinions requested by Financial Security as may be reasonably necessary to effect the Transaction, including but not limited to evidence satisfactory to Financial Security that the conditions precedent, if any, in the City Documents have been satisfied.

Section 3.02. Reimbursement and Additional Payment Obligation. The City agrees to pay to Financial Security, but only from the Payment Source, as follows:

(a) a sum equal to the total of all amounts paid by Financial Security under the Policy;

(b) if there is not a Same Day Reimbursement to Financial Security of any amounts paid by Financial Security under the Policy, any and all charges, fees, costs and expenses which Financial Security may reasonably pay or incur, including, but not limited to, attorneys' and accountants' fees and expenses, in connection with (i) any accounts established to facilitate payments under the Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of any of the City Documents, including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of any Transaction participant or any affiliate thereof) relating to any of the City Documents, any party to any of the City Documents or the Transaction, or (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under any of the City Documents, or pursuit of any other remedies under any of the City Documents, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of Financial Security spent in connection with the actions described in clauses (ii) and (iii) above, to the extent such costs and expenses were actually incurred; and

(c) interest on any and all amounts described in this Section 3.02 from the date paid by Financial Security until payment thereof in full, payable to Financial Security at the Late Payment Rate per annum.

All such amounts are immediately due and payable without demand upon the occurrence, in the case of (a) above, the payment by Financial Security of amounts under the Policy, and in the case of (b) above, upon the incurrence by Financial Security of the charges, fees, costs or expenses described therein. Amounts received by Financial Security from the City pursuant hereto shall be applied first to amounts described in (c) above prior to application to amounts described in (a) or (b) above.

Section 3.03. Payment Procedure. In the event of any payment by Financial Security under the Policy, the City agrees to accept an executed notice in the form attached to Endorsement No. 1 of the Policy as Exhibit A, or other evidence of payment, as prima facie evidence of the propriety thereof and the liability of the City therefor to Financial Security. All payments to be made to Financial Security under this Agreement shall be made to Financial Security in lawful currency of the United States of America in immediately available funds to the following account before 1:00 p.m. (New York, New York time) as Financial Security shall direct by written notice to the City:

[FSA account information]

In the event that the date of any payment to Financial Security or the expiration of any time period hereunder occurs on a day which is not a Business Day, then such payment or expiration of time period shall be made or occur on the next succeeding Business Day with the same force and effect as if such payment was made or time period expired on the scheduled date of payment or expiration date. Payments to be made to Financial Security under this Agreement shall bear interest at the Late Payment Rate from the date when due to the date paid.

Section 3.04. Subrogation. The parties hereto acknowledge that, to the extent of any payment made by Financial Security pursuant to the Policy, Financial Security is to be fully subrogated to the extent of such payment and any additional interest due on any late payment, to the rights of the Authority under the Supply Agreement to any moneys paid or payable in respect of the Obligations under the City Documents. The City agrees to such subrogation.

ARTICLE IV
FURTHER AGREEMENTS

Section 4.01. Effective Date; Term of Agreement. This Agreement shall take effect on the Date of Issuance and shall remain in effect until all amounts payable by the City under the Supply Agreement and, without duplication of payment, this Agreement have been paid in full. Upon such payment, the Term of this Agreement shall terminate. Thereafter, the City shall have no further liability hereunder, and Financial Security shall upon request provide a written acknowledgement to the City of the termination of the Term of this Agreement.

Section 4.02. Further Assurances and Corrective Instruments. To the extent permitted by law, the City agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as Financial Security may reasonably request and as may be reasonably required in Financial Security's judgment to effectuate the intention of or facilitate the performance of this Agreement.

Section 4.03. Obligations Absolute. (a) The obligations of the City hereunder shall be absolute and unconditional obligations of the City, and shall be paid (but only from the Payment Source) or performed strictly in accordance with this Agreement under all circumstances irrespective of:

(i) any lack of validity or enforceability of, or any amendment or other modifications of, or waiver with respect to any of the City Documents, the Obligations or the Policy;

(ii) any exchange or release of any other obligations hereunder;

(iii) the existence of any claim, setoff, defense, reduction, abatement or other right which the City may have at any time against Financial Security or any other Person;

(iv) any document presented in connection with the Policy proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) any payment by Financial Security under the Policy against presentation of a certificate or other document which does not strictly comply with terms of the Policy;

(vi) any failure of the City to receive amounts payable to it under the City Documents;

(vii) any breach by the City or the Authority of any representation, warranty or covenant contained in any of the City Documents;

(viii) the existence of any dispute between the parties to the Supply Agreement, including, without limitation, any dispute relating to the existence or nature of a force majeure event or events, or

(ix) any other circumstances, other than payment in full, which might otherwise constitute a defense available to, or discharge of, the City in respect of any City Document.

If the City disputes the amount or validity of any payment obligation under the Supply Agreement after Financial Security has honored a claim under the Policy with respect to such amount, Financial Security may, at its option, do any or all of the following: (a) exercise remedies against the City under the Supply Agreement or hereunder to compel the payment of such amount in accordance with Section [13.3(i)] of the Supply Agreement, (b) at the expense of City, direct or assume control of any litigation, arbitration, mediation or other dispute resolution proceeding instituted by the City against the Authority relating to such dispute (or any proceeding in which any

material element of such dispute is asserted as a defense to City's obligation to pay), or (c) as subrogee of the City, at City's expense, institute its own suit or other dispute resolution proceeding against the Authority for adjudication of the dispute and recoupment of any amounts by which Financial Security shall have be determined to have overpaid. Nothing in this paragraph shall relieve the City of its obligation to comply with Section [13.3(i)] of the Supply Agreement or Section 3.02 hereof.

Section 4.04. Liability of Financial Security. Neither Financial Security nor any of its officers, directors or employees shall be liable or responsible for: (a) the use which may be made of the Policy by the holder thereof or for any acts or omissions of the holder thereof in connection therewith; or (b) the validity, sufficiency, accuracy or genuineness of documents delivered to Financial Security (or its Fiscal Agent) in connection with any claim under the Policy, or of any signatures thereon, even if such documents or signatures should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged (unless Financial Security shall have actual knowledge thereof). In furtherance and not in limitation of the foregoing, Financial Security (or its Fiscal Agent) may accept documents that appear on their face to be in order, without responsibility for further investigation.

ARTICLE V
EVENTS OF DEFAULT; REMEDIES

Section 5.01. Events of Default. The failure by the City to make a Same Day Reimbursement of any amount paid by Financial Security under the Policy shall constitute an Event of Default hereunder.

Section 5.02. Remedies; Waivers. (a) Upon the occurrence of an Event of Default, Financial Security may exercise any one or more of the rights and remedies set forth below:

(i) exercise any rights and remedies available under the City Documents in its own capacity or, if Financial Security has honored a claim on the Policy, in its capacity as subrogee to the Authority or the Trustee under the Supply Agreement; or

(ii) take whatever action at law or in equity, including, without limitation, mandamus, as may appear necessary or desirable in its judgment to collect the amounts then due and thereafter to become due under the City Documents or to enforce performance of any obligation of the City under the City Documents.

(b) Unless otherwise expressly provided, no remedy herein conferred upon or reserved is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given under the City Documents or existing at law or in equity. No delay or failure to exercise any right or power accruing under any City Document upon the occurrence of any Event of Default or otherwise shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Financial Security to exercise any remedy reserved to Financial Security in this Article, it shall not be necessary to give any notice, other than such notice as may be required in this Article.

(c) If any proceeding has been commenced to enforce any right or remedy under this Agreement, and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to Financial Security, then and in every such case the parties hereto shall, subject to any determination in such proceeding, be restored to their respective former positions hereunder, and, thereafter, all rights and remedies of Financial Security shall continue as though no such proceeding had been instituted.

(d) During any period in which Financial Security is not in default under the Policy, Financial Security shall have the right, to be exercised in its complete discretion, to waive any covenant, Default or Event

of Default by a writing setting forth the terms, conditions and extent of such waiver signed by Financial Security and delivered to the other parties hereto. Any such waiver may only be effected in writing duly executed by Financial Security, and no other course of conduct shall constitute a waiver of any provision hereof. Unless such writing expressly provides to the contrary, any waiver so granted shall extend only to the specific event or occurrence so waived and not to any other similar event or occurrence which occurs subsequent to the date of such waiver.

ARTICLE VI
MISCELLANEOUS

Section 6.01. Amendments, Etc. This Agreement may be amended, modified or terminated only by written instrument or written instruments signed by the parties hereto. No act or course of dealing shall be deemed to constitute an amendment, modification or termination hereof.

Section 6.02. Notices. All demands, notices and other communications to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied to the recipient as follows:

(a) To Financial Security:

Financial Security Assurance Inc.
31 West 52nd Street
New York, NY 10019
Attention: Surveillance Department
Confirmation: (212) 826-0100
Telecopy No.: (212) 339-3556

(in each case in which notice or other communication to Financial Security refers to an Event of Default or a claim on the Policy, then a copy of such notice or other communication should also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED.")

(b) To the City:

[City Address]

Attention:
Confirmation:
Telecopy No.:

A party may specify an additional or different address or addresses by writing mailed or delivered to the other parties as aforesaid. All such notices and other communications shall be effective upon receipt.

Section 6.03. Notice Requirements. Financial Security shall be provided with the following information by the City:

(i) Annual audited financial statements within 210 days after the end of the City's fiscal year (together with a certification of the City that it is not aware of any default or Purchaser Material Default under the Supply Agreement), and the City's annual

budget within 30 days after the approval thereof together with such other information, data or reports as Financial Security shall reasonably request from time to time;

(ii) Prior notice of the termination in part or whole of the Supply Agreement;

(iii) Notice of any default, Event of Default or Purchaser Material Default under the Supply Agreement or the Gas Purchase Agreement between the Authority and Merrill Lynch Commodities, Inc.

(iv) Notice of the commencement of any proceeding by or against the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(v) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment under the Supply Agreement;

(vi) A full original transcript of all authorizing resolutions and executed documents relating to the execution of any amendment, supplement, modification or waiver of the Supply Agreement; and

(vii) All reports, notices and correspondence to be delivered to the Authority or the Trustee other than routine gas sales and use reports and delivery confirmations or invoices.

Section 6.04. Severability. In the event that any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, the parties hereto agree that such holding shall not invalidate or render unenforceable any other provision hereof. The parties hereto further agree that the holding by any court of competent jurisdiction that any remedy pursued by any party hereto is unavailable or unenforceable shall not affect in any way the ability of such party to pursue any other remedy available to it.

Section 6.05. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, PROVIDED, THAT THE POWERS OF THE CITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 6.06. Consent of Financial Security. In the event that Financial Security's consent is required under any of the City Documents, the determination whether to grant or withhold such consent shall be made by Financial Security in its sole discretion without any implied duty towards any other Person, except as otherwise expressly provided therein.

Section 6.07. Counterparts. This Agreement may be executed in counterparts by the parties hereto, and all such counterparts shall constitute one and the same instrument.

Section 6.08. Headings. The headings of articles and sections and the table of contents contained in this Agreement are provided for convenience only. They form no part of this Agreement and shall not affect its construction or interpretation. Unless otherwise indicated, all references to articles and sections in this Agreement refer to the corresponding articles and sections of this Agreement.

Section 6.09. Limited Liability. No recourse under any City Document shall be had against, and no personal liability shall attach to, any officer, employee, director, affiliate or shareholder of any party hereto, as such, by the enforcement of any assessment or by any legal or equitable proceeding, by virtue of any statute or otherwise in respect of any of the City Documents, the Obligations or the Policy, it being expressly agreed and understood that each City Document is solely a corporate obligation of each party hereto, and that any and all personal liability, either at common law or in equity, or by statute or constitution, of every such officer, employee, director, affiliate or

shareholder for breaches by any party hereto of any obligations under any City Document is hereby expressly waived as a condition of and in consideration for the execution and delivery of this Agreement.

Section 6.10. Entire Agreement. This Agreement and the Policy set forth the entire agreement between the parties with respect to the subject matter thereof, and this Agreement supersedes and replaces any agreement or understanding that may have existed between the parties prior to the date hereof in respect of such subject matter.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement, all as of the day and year first above written.

FINANCIAL SECURITY ASSURANCE INC.

By _____
Authorized Officer

CITY OF ROSEVILLE

By _____
Title _____

APPENDIX I
DEFINITIONS

"Act" means the charter or statute of the state in which the City is organized and conducts its business that govern the formation, corporate existence and standing of the City.

"Authority" means the Roseville Natural Gas Financing Authority.

"Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the City of New York, New York or in the City where the principal corporate trust office of the Trustee is located are authorized or obligated by law or executive order to be closed.

"City Documents" means this Reimbursement Agreement and the Supply Agreement.

"City Security Document" means the document, instrument or agreement, if any, pursuant to which the City has pledged the revenues received from the sale of electricity together with other security, if any, for the payment of its obligations relating to its electric supply system or the system of which its electric supply system forms a part, and for which City is purchasing gas pursuant to the Supply Agreement.

"Customer Insurance Policy Commitment" means the commitment of Financial Security dated _____ pursuant to which Financial Security agrees to issue the Policy subject to the conditions set forth therein.

"Date of Issuance" means the date on which the Policy is issued as specified therein.

"Default" means any event which results, or which with the giving of notice or the lapse of time or both would result, in an Event of Default.

"Electric Enterprise" means the electric utility system of the City, comprising all electric generation, transmission and distribution facilities and all general plant facilities related thereto now owned by the City and all other properties, structures or works for the generation, transmission or distribution of electricity hereafter acquired by the City, including all contractual rights for electricity or the transmission thereof, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof thereafter acquired.

"Event of Default" means any event of default specified in Section 5.01 of this Reimbursement Agreement.

"Financial Security" means Financial Security Assurance Inc., a New York stock insurance company, its successors and assigns.

"Fiscal Agent" means the Fiscal Agent, if any, designated pursuant to the terms of the Policy.

"Late Payment Rate" means the lesser of (a) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

"Lien" means, as applied to the property or assets (or the income or profits therefrom) of any Person, in each case whether the same is consensual or nonconsensual or arises by contract, operation of law, legal process or otherwise: (a) any mortgage, lien, pledge, attachment, charge, lease, conditional sale or other title retention agreement, or other security interest or encumbrance of any kind; or (b) any arrangement, express or implied, under which such property or assets are transferred, sequestered or otherwise identified for the purpose of subjecting or making available the same for the payment of debt or performance of any other obligation in priority to the payment of the general, unsecured creditors of such Person.

"Material Adverse Change" means, in respect of the City, a material adverse change in (i) the business, financial condition, results of operations or properties of the City, (ii) the ability of the City to

perform its obligations under any of the City Documents to which it is a party or (iii) the practical realization by Financial Security of any of the benefits or security afforded it under any of the City Documents.

"Obligations" means the obligations of the City under the Supply Agreement to make Contract Price Payments.

"Payment Source" means the City's revenues from the operation of its Electric Enterprise.

"Person" means an individual, joint stock company, trust, unincorporated association, joint venture, corporation, business or owner trust, partnership or other organization or entity (whether governmental or private).

"Policy" means the financial guaranty insurance policy, including any endorsements thereto, issued by Financial Security with respect to the Obligations, specifically, Policy No. ######-XXX dated _____, 2007.

"Premium" means the premium payable in accordance with Section 3.02 of this Reimbursement Agreement.

"Reimbursement Agreement" means this Reimbursement Agreement.

"Same Day Reimbursement" means, with respect to a payment by Financial Security under the Policy, reimbursement of such payment in accordance with Section 3.03 of this Reimbursement Agreement by 1:00 p.m. (New York, New York time) on the date the City receives the notice or other evidence of payment referred to in said Section 3.03; provided, that if the City receives such notice or other evidence of payment after 11:00 a.m. (New York, New York time) on a day, "Same Day Reimbursement" means such payment by 1:00 p.m. (New York, New York time) on the Business Day next succeeding the date on which the City receives the notice or other evidence of payment referred to in said Section 3.03.

"Supply Agreement" means the Natural Gas Supply Agreement dated as of _____, 2007, between the City and the Authority.

"Term of the Agreement" shall be determined as provided in Section 4.01 of this Reimbursement Agreement.

"Transaction" means the transaction contemplated by the Supply Agreement.

"Trust Indenture" means the Trust Indenture between the Authority and the Trustee dated as of _____.

"Trustee" means The Bank of New York Trust Company, N.A., a national banking association, as trustee under the Trust Indenture, and any successor.

"Underwriting Information" means all documents, agreements, instruments, schedules, certificates, statements, cash flow schedules, number runs or other writings or data containing financial, statistical, demographic, economic, or other information about the Electric Enterprise supplied to Financial Security in connection with Financial Security's evaluation of the Electric Enterprise for purposes of determining whether to issue the Commitment and deliver the Policy.

FINANCIAL SECURITY ASSURANCE®

FINANCIAL GUARANTY INSURANCE POLICY

OBLIGOR: City of Roseville, California

Policy No.: 208094-NGP

OBLIGATIONS: As Defined in Endorsement No. 1

Date of Issuance: February 6, 2007

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Holder, subject only to the terms of this Policy (which includes each endorsement hereto), the full and complete payment by the Obligor of Scheduled Payments of principal of, and interest on, the Obligations.

For the further protection of each Holder, Financial Security irrevocably and unconditionally guarantees payment of any amount required to be paid under this Policy by Financial Security following Financial Security's receipt of notice as described in Endorsement No. 1 hereto.

Financial Security shall be subrogated to the rights of each Holder to receive payments under the Obligations to the extent of any payment by Financial Security hereunder.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Holder" means the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Obligor for such purpose or, if the Obligation is in bearer form, the holder of the Obligation. "Scheduled Payments" means payments which are scheduled to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Obligor, (b) an election by the Obligor to pay principal on an accelerated basis or (c) any other cause, shall not constitute "Scheduled Payments" unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" shall have the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto, or by the merger, consolidation or dissolution of the Obligor. Except to the extent expressly modified by an endorsement hereto, the premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

SPECIMEN

By _____
Authorized Officer

31 West 52nd Street, New York, New York 10019
(212) 826-0100

Form 100xNY (5/89)

Exhibit B
Form of Policy

ENDORSEMENT NO. 1 TO
FINANCIAL GUARANTY INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE INC.

OBLIGOR:	City of Roseville, California (herein, "City" or "Obligor")
OBLIGATIONS:	as defined below
Policy No.:	208094-NGP
Date of Issuance:	February 6, 2007

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to the Holder, subject only to the terms of this Policy (which includes each endorsement hereto), the full and complete payment by the Obligor of Scheduled Payments on the Obligations.

1. Definitions. For all purposes of this Policy, the terms specified below shall have the meanings or constructions provided below. Capitalized terms used herein and not otherwise defined herein shall have the meanings provided in the Supply Agreement unless the context shall otherwise require.

"Authority" means the Roseville Natural Gas Financing Authority.

"Business Day" means any day other than (i) a Saturday or Sunday or (ii) a day on which banking institutions in the City of New York are authorized or obligated by law or executive order to be closed.

"Holder" shall mean, notwithstanding any contrary definition set forth on the face of this Policy, the Authority, or the Trustee as the Authority's assignee.

SPECIMEN

"Obligations" means the payment of the Contract Price as such term is defined in the Supply Agreement.

"Policy" means this Financial Guaranty Insurance Policy and includes each endorsement thereto.

"Policy Limit" means $29,760,000 in the aggregate.

"Purchaser Material Default" shall have the meaning assigned thereto in the Supply Agreement (disregarding for this purpose any payments made or other curative actions by Customer Insurance Provider).

"Receipt" and "Received" mean actual delivery to Financial Security and to the Fiscal Agent (as defined below), if any, prior to 12:00 noon, New York City time, on a Business Day; delivery either on a day that is not a Business Day, or after 12:00 noon, New York City time, shall be deemed to be receipt on the next succeeding Business Day.

"Scheduled Payments" means, notwithstanding any contrary definition set forth on the face of this Policy, on any Payment Date, the lesser of (i) the amount of any Obligations that the Obligor has failed to pay pursuant to the terms and conditions of the Supply Agreement or (ii) the positive difference between (X) the Policy Limit and (Y) the sum of all Scheduled Payments that have previously been paid by Financial Security or that are the subject of pending claims for payment hereunder. Scheduled Payments shall not include, nor shall coverage be provided under this Policy in respect of, any interest or penalties, any taxes, withholdings or other charges imposed by any governmental or regulatory authority, any Imbalance Charges, transportation costs, or early termination damages. Scheduled Payments shall not in the aggregate exceed the Policy Limit. Notwithstanding

the use of the terms "principal" and "interest" in this Policy, it is understood that Scheduled Payments do not refer to payments of principal and interest on any obligation but include the amounts referred to in the definition of "Obligations" herein. For the avoidance of doubt, "Obligations" and "Scheduled Payments" shall specifically exclude any payment obligations of the Obligor accruing after the termination of the Supply Agreement.

"Supply Agreement" means the Natural Gas Supply Agreement between Obligor and the Authority dated as of February 1, 2007, as in effect as of the date hereof without giving effect to any subsequent amendment, modification or supplement of or to such sections, clauses, paragraphs or definitions, except for any subsequent amendment, modification or supplement made with the prior written consent of Financial Security.

"Term of This Policy" means the period from and including the Date of Issuance to and including the earlier to occur of (i) the date on which all Scheduled Payments have been paid or (ii) thirty days after the date the Supply Agreement terminates either at the end of its stated term or pursuant to an earlier termination.

"Trustee" means The Bank of New York Trust Company, N.A., as trustee under the Trust Indenture with the Authority relating to the issuance of Gas Revenue Bonds, 2007 Series A, dated as of February 1, 2007, and any successor trustee under said Trust Indenture.

2. Notices and Conditions to Payment in Respect of Scheduled Payments. Following Receipt by Financial Security of a notice, certificate and assignment (together with any attachments thereto, a "Certificate") from the Trustee in the form attached as Exhibit A to this Endorsement No. 1 (properly completed, executed and delivered to Financial Security no later than one (1) Business Day prior to the payment date specified in such Certificate), Financial Security will pay an amount equal to the applicable Scheduled Payment out of the funds of Financial Security at or prior to 12:00 noon, New York City time, on the first (1st) Business Day following such Receipt (the "Payment Date"). Payments due hereunder in respect of Scheduled Payments will be disbursed by wire transfer of immediately available funds to the account of the Holder as specified by the Trustee. No more than two (2) Scheduled Payments shall be payable hereunder.

SPECIMEN

Financial Security shall be entitled to pay any amount hereunder in respect of Scheduled Payments on the Obligations whether or not any notice and certificate shall have been Received by Financial Security as provided above. Financial Security's obligations hereunder in respect of Scheduled Payments shall be discharged to the extent funds are disbursed by Financial Security as provided herein whether or not such funds are properly applied by the Authority or the Trustee.

3. Insolvency of Obligor. The Holder, by acceptance of this Policy, agrees that Financial Security may at any time during the continuation of any proceeding by or against the Obligor commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding. In addition, and without limitation of the foregoing, as set forth in paragraph 7 hereof, Financial Security shall be subrogated to, and the Holder hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Holder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding action with respect to any court order issued in connection with any such Insolvency Proceeding.

4. Demand for Payment. Notwithstanding anything to the contrary contained in this Policy, no payment shall be made by Financial Security hereunder unless a Purchaser Material Default has occurred and a completed and signed Certificate is presented to Financial Security by the Trustee.

5. Governing Law. This Policy shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof.

6. Fiscal Agent. At any time during the Term of this Policy, Financial Security may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Holder at the notice address specified in the Master Agreement specifying the name and notice address of the Fiscal Agent. From and after the date of

receipt of such notice by the Holder, (i) copies of all notices and documents required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Fiscal Agent and to Financial Security and shall not be deemed Received until Received by both, and (ii) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Fiscal Agent on behalf of Financial Security. The Fiscal Agent is the agent of Financial Security only and the Fiscal Agent shall in no event be liable to any Holder for any acts of the Fiscal Agent or any failure of Financial Security to deposit, or cause to be deposited, sufficient funds to make payments due under the Policy.

7. Rights of Subrogation; No Discharge. Financial Security shall, to the extent it makes any Scheduled Payment, become subrogated to the rights of the Holder to receive such Scheduled Payment.

8. Notices; Service of Process. All notices to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied immediately confirmed by mail or delivery to Financial Security at 31 W. 52nd St., New York, New York 10019 Attention: Managing Director - Surveillance Telecopy No.: (212) 339-3556 Confirmation: (212) 826-0100, or such different address or addresses in substitution for the above as shall be specified by Financial Security by writing mailed or delivered to the Holder.

Financial Security hereby appoints and designates its General Counsel as its true and lawful attorney and duly authorized agent for acceptance of service of legal process and agrees that service of such process upon such person shall constitute personal service of such process upon it.

9. Priorities. In the event that any term or provision on the face of this Policy is inconsistent with provisions of this Endorsement No. 1, the provisions of this Endorsement No. 1 shall take precedence and be binding.

10. Exclusions From Insurance Guaranty Funds. This Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. This Policy is not covered by the Florida Insurance Guaranty Association created under Part II of Chapter 631 of the Florida Insurance Code. In the event Financial Security were to become insolvent, any claims arising under this Policy are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

11. Surrender of Policy. The Holder shall surrender this Policy to Financial Security for cancellation upon expiration of the Term of this Policy but any failure of the Holder to do so shall not extend the Term of This Policy past the date on which it would otherwise occur.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto, or by the merger, consolidation of dissolution of the Obligor. Except to the extent expressly modified by an endorsement hereto, the premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity, or early termination of the Supply Agreement. This Policy may not be canceled or revoked during the Term of this Policy.

IN WITNESS WHEREOF, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

SPECIMEN

By: _____
Authorized Officer

Date of Issuance: February 6, 2007

Policy No. 208094-NGP

Exhibit A
To Endorsement No. 1

NOTICE OF CLAIM, CERTIFICATE AND ASSIGNMENT

Financial Security Assurance Inc.
31 W. 52nd Street
New York, NY 10019

_____
[date of notice]

The undersigned, a duly authorized officer of [insert name of trustee bank], as Trustee under the Trust Indenture dated as of February 1, 2007 (the "Trust Indenture"), between the Roseville Natural Gas Authority (the "Authority") and said Trustee, hereby certifies to Financial Security Assurance Inc. ("Financial Security"), with reference to Financial Guaranty Insurance Policy No. 208094-NGP dated February 6, 2007 (the "Policy") issued by Financial Security in respect of the contractual amounts due for payment by the City of Roseville, California (the "Obligor") pursuant to the Natural Gas Supply Agreement between the Authority and the Obigor (the "Supply Agreement") dated as of February 1, 2007 (the "Authority"), that:

(i) the Holder is the beneficiary of the Policy.

(ii) the Holder is the seller under the Supply Agreement and there is no other seller thereunder.

(iii) a Purchaser Material Default (as such term is defined in the Supply Agreement) has occurred and the Supply Agreement was or will be terminated (other than with respect to obligations that survive termination pursuant to Section 22.16 of the Supply Agreement) on or prior to the date of this Notice of Claim, Certificate and Assignment.

(iv) in accordance with the Trust Indenture, amounts payable by the Obligor under the Supply Agreement no longer constitute "Revenues" under the Trust Indenture and any amounts received by the Trustee from the Obligor after the date of termination of the Supply Agreement shall be remitted promptly to Financial Security.

SPECIMEN

(v) the Obligor is required to pay the Obligations in accordance with the Supply Agreement and neither the Obligor nor any other person has satisfied such requirement.

(vi) the Holder has not, after February 6, 2007, agreed to any consent, amendment, modification, supplement or waiver (a "Modification") of any provision of the Supply Agreement, other than (A) a Modification to which Financial Security has delivered its prior written consent or (B) a Modification providing for a change to or addition or removal of one or more Delivery Points.

(vii) the Holder has not previously made a conforming demand under the Policy for the Scheduled Payment demanded pursuant hereto.

(viii) the amount of the Scheduled Payment due is $_____, such amount, together with all other Scheduled Payments that are the subject of prior conforming demands under the Policy, does not exceed the Policy Limit and does not exceed the amount due and payable by the Obligor under the Supply Agreement in respect of the Obligations for Contract Gas delivered or tendered during the Month of _____, _____ [month/year].

(ix) Such amount is requested to be paid on _____ [date not less than one (1) Business Day after the date this Notice of Claim and Certificate is delivered to Financial Security].

(x) Payment by Financial Security under the Policy should be made by wire transfer directed to [specify the account and account details].

The Holder hereby irrevocably and unconditionally assigns, transfers and conveys to Financial Security all right, title and interest of the Holder with respect to the Obligations and the Supply Agreement (except (1) the right to indemnification under the Supply Agreement for claims arising prior to, or with respect to the period prior to, such assignment to Financial Security, (2) the right to receive all other amounts payable to the Obligor under the Supply Agreement after Financial Security has received the following amounts (i) all amounts paid by Financial

Security under the Policy and required to be paid to Financial Security (as assignee or subrogee of the Holder or otherwise) by the Obligor pursuant to the Supply Agreement, including interest on amounts paid under the Policy as provided in the Supply Agreement, and (ii) all costs and expenses incurred by Financial Security in the exercise of remedies under the Supply Agreement). The foregoing assignment is in addition to, and not in limitation of, any rights otherwise available to Financial Security in respect of payments made by it under the Policy. The Holder shall take such action and deliver such instruments as may be reasonably requested or required by Financial Security to effectuate the purpose or provisions of this paragraph. The Holder hereby waives any right it may have to object to such assignment, transfer and conveyance on the basis that such assignment, transfer and conveyance shall fail to conform with any of the requirements set forth in the Supply Agreement, the Trust Indenture, or any other document, instrument or agreement. The Holder agrees to pay all of its own costs and expenses of the foregoing assignment, transfer and conveyance and shall pay all of the costs and expenses (including, without limitation, fees and expenses of counsel) incurred in connection with such assignment, transfer and conveyance. The Holder hereby appoints Financial Security as agent and attorney-in-fact for the Holder in any legal proceeding with respect to the Obligations to the extent of any payments made by Financial Security with respect to such Obligations.

The Holder hereby agrees that Financial Security may at any time during the continuation of any proceeding by or against the Obligor under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding to the extent the Holder would otherwise be so entitled. In addition, the Holder hereby agrees that Financial Security shall be subrogated to, and the Holder hereby delegates and assigns, to the fullest extent permitted by law, the rights of the Holder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of the Holder as a party to any adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Following the receipt in full by Financial Security of (A) all amounts paid by Financial Security (as assignee or subrogee of the Holder or otherwise) under the Policy and required to be paid to Financial Security by the Obligor pursuant to the Supply Agreement and the Reimbursement Agreement between Financial Security and the Obligor, including interest on amounts paid under the Policy, and (B) all costs and expenses incurred by Financial Security in the exercise of remedies under the Supply Agreement and/or the Trust Indenture, the Holder shall be entitled to any excess proceeds received by Financial Security pursuant to the Supply Agreement (the "Excess Proceeds").

Unless the context otherwise requires, capitalized terms used in this Notice of Claim and Certificate and not defined herein shall have the meanings provided in the Policy.

SPECIMEN

IN WITNESS WHEREOF, the Holder has executed and delivered this Notice of Claim, Certificate and Assignment as of the ____ day of _____, ____.

[Name of Holder]

By: _____

Title:

For Financial Security or
Fiscal Agent Use Only

Wire transfer sent on _____ By _____
Confirmation Number _____

REIMBURSEMENT AGREEMENT

REIMBURSEMENT AGREEMENT dated as of February 1, 2007 between FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") and the City of Roseville (the "City").

INTRODUCTORY STATEMENTS

The parties hereto desire to specify the conditions precedent to the issuance of the Policy by Financial Security, the indemnity and reimbursement to be provided by the City in respect of amounts paid by Financial Security under a Policy or otherwise and certain other matters.

In consideration of the premises and of the agreements herein contained, Financial Security and the City hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01. Definitions. Capitalized terms used herein shall have the meanings provided in Appendix I hereto unless the context otherwise requires.

ARTICLE II
REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.01. Representations and Warranties of the City. The City represents, warrants and covenants as follows:

(a) Due Organization and Qualification. The City is a municipal corporation and chartered city of the State of California. The City is in good standing under the laws of the state in which it is organized and has obtained all necessary licenses, permits, charters, registrations and approvals (together, "approvals") necessary for the conduct of its Electric Enterprise business as currently conducted and the performance of its obligations under the City Documents.

(b) Power and Authority. The City has all necessary power and authority under the Act to conduct its Electric Enterprise business as currently conducted, to execute, deliver and perform its obligations under the City Documents and to consummate the Transaction.

(c) Due Authorization. The execution, delivery and performance of the City Documents by the City have been duly authorized by all necessary corporate action and do not require any additional approvals or consents or other action by or any notice to or filing with any Person, including, without limitation, any governmental entity.

(d) Legal Proceedings. As of the dated date hereof, there is no action, proceeding or investigation by or before any court, governmental or administrative agency or arbitrator against or affecting the City, or any properties of the Electric Enterprise or rights of the City with respect to the Electric Enterprise, pending or, to the City's knowledge, threatened, which, in any case, if decided adversely to the City, would result in a Material Adverse Change with respect to the City.

(e) Valid and Binding Obligations. The City Documents, when executed and delivered by the City, will constitute the legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equitable principles.

(f) No Conflict. The City Documents do not violate any material document, instrument or agreement to which the City is a party or by which any of its property, funds or assets relating to the Electric Enterprise may be encumbered, repossessed, or foreclosed upon, including, without limitation, the City Security Document, if any.

(g) Financial and Demographic Information. The City has previously supplied to Financial Security the Underwriting Information. City represents and warrants that (i) the Underwriting Information is accurate as of its date and does not contain any statement of a material fact that was untrue or misleading in any material respect when made, (ii) there is no fact known to the City that has a material possibility of causing a Material Adverse Change with respect to the Electric Enterprise, (iii) since the furnishing of the Underwriting Information, there has been no change nor any development or event involving a prospective change known to the City that would render any of the Underwriting Information untrue or misleading in a material respect.

(h) Incorporation of Representations and Warranties from Supply Agreement. The City agrees that Financial Security may rely on the representations and warranties of the City contained in the Supply Agreement as though such representations and warranties were fully set forth herein, regardless of any amendment, modification, supplement, termination or waiver of the Supply Agreement.

Section 2.02. Affirmative Covenants of the City. The City hereby agrees that during the Term of the Agreement, unless Financial Security shall otherwise expressly consent in writing:

(a) Compliance With Agreements and Applicable Laws. The City shall perform each of its obligations under the City Documents and comply with all requirements of any law, rule or regulation applicable to its ownership or operation of the Electric Enterprise where such failure to comply would result in a Material Adverse Change.

(b) Corporate Existence. The City shall maintain its existence as a body corporate and politic and shall at all times continue to be organized and existing under the Act and duly authorized under the Act and shall conduct its Electric Enterprise business in accordance with the terms of its organizational documents.

(c) Access to Records; Discussions With Officers and Accountants. The City shall, upon the request of Financial Security, permit Financial Security or its authorized agents:

(i) to inspect the books and records of the City as they may relate to the Transaction, and the obligations of the City under the City Documents;

(ii) to discuss the affairs, finances and accounts of the City's Electric Enterprise with the Chief Financial Officer of the City; and

(iii) during and after the occurrence of a Purchaser Material Default, to discuss the affairs, finances and accounts of the City's Electric Enterprise with the City's independent accountants, provided that an officer of the City shall have the right to be present during such discussions.

Such inspections and discussions shall be conducted during normal business hours and shall not unreasonably disrupt the business of the City. The books and records of the City will be maintained at the address of the City designated herein for receipt of notices, unless the City shall otherwise advise the parties hereto in writing.

Section 2.03. Negative Covenant of the City. The City hereby agrees that during the Term of the Agreement, unless Financial Security shall otherwise expressly consent in writing, the City shall not create, incur or

suffer to exist, or agree to create, incur or suffer to exist, or consent to cause or permit in the future (upon the happening of a contingency or otherwise) the creation, incurrence or existence of any Lien on the Payment Source to or for the benefit of any seller of natural gas that would provide such party with a right to payment that is prior to the rights of the Authority (or Financial Security as assignee or subrogee of the Authority) to payment under the Supply Agreement and of Financial Security hereunder. Any Lien on the Payment Source in contravention of this Section 2.03 shall be null and void.

ARTICLE III
THE POLICY; REIMBURSEMENT; INDEMNIFICATION

Section 3.01. Issuance of the Policy. Financial Security agrees to issue the Policy subject to satisfaction of the conditions precedent set forth below and in the Commitment:

(a) Payment of Premium and Expenses. Financial Security shall have been paid a nonrefundable Premium.

(b) Related Documents. Financial Security shall have received a copy of each of the City Documents, in form and substance satisfactory to Financial Security, duly authorized, executed and delivered by each party thereto.

(c) Opinions of Counsel. Financial Security shall have received opinions of counsel as set forth in its Customer Insurance Policy Commitment.

(d) No Litigation, Etc. No suit, action or other proceeding, investigation, or injunction or final judgment relating thereto, shall be pending or threatened before any court or governmental agency in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with any of the City Documents or the consummation of the Transaction.

(e) Legality. No statute, rule, regulation or order shall have been enacted, entered or deemed applicable by any government or governmental or administrative agency or court which would make the transactions contemplated by any of the City Documents illegal or otherwise prevent the consummation thereof.

(f) Satisfaction of Conditions. The City Documents shall have been executed and delivered by the parties thereto.

(g) No Default. No Default or Event of Default shall have occurred.

(h) Additional Items. Financial Security shall have received such other documents, instruments, approvals or opinions requested by Financial Security as may be reasonably necessary to effect the Transaction, including but not limited to evidence satisfactory to Financial Security that the conditions precedent, if any, in the City Documents have been satisfied.

Section 3.02. Reimbursement and Additional Payment Obligation. The City agrees to pay to Financial Security, but only from the Payment Source, as follows:

(a) a sum equal to the total of all amounts paid by Financial Security under the Policy;

(b) if there is not a Same Day Reimbursement to Financial Security of any amounts paid by Financial Security under the Policy, any and all charges, fees, costs and expenses which Financial Security may reasonably pay or incur, including, but not limited to, attorneys' and accountants' fees and expenses, in connection with (i) any accounts established to facilitate payments under the Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of any of the City

Documents, including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of any Transaction participant or any affiliate thereof) relating to any of the City Documents, any party to any of the City Documents or the Transaction, or (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under any of the City Documents, or pursuit of any other remedies under any of the City Documents, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of Financial Security spent in connection with the actions described in clauses (ii) and (iii) above, to the extent such costs and expenses were actually incurred; and

(c) interest on any and all amounts described in this Section 3.02 from the date paid by Financial Security until payment thereof in full, payable to Financial Security at the Late Payment Rate per annum.

All such amounts are immediately due and payable without demand upon the occurrence, in the case of (a) above, the payment by Financial Security of amounts under the Policy, and in the case of (b) above, upon the incurrence by Financial Security of the charges, fees, costs or expenses described therein. Amounts received by Financial Security from the City pursuant hereto shall be applied first to amounts described in (c) above prior to application to amounts described in (a) or (b) above.

Section 3.03. Payment Procedure. In the event of any payment by Financial Security under the Policy, the City agrees to accept an executed notice in the form attached to Endorsement No. 1 of the Policy as Exhibit A, or other evidence of payment, as prima facie evidence of the propriety thereof and the liability of the City therefor to Financial Security. All payments to be made to Financial Security under this Agreement shall be made to Financial Security in lawful currency of the United States of America in immediately available funds to the following account before 1:00 p.m. (New York, New York time) as Financial Security shall direct by written notice to the City:

Bank:	The Bank of New York
ABA#:	021 000 018
Acct. Name:	Financial Security Assurance Inc.
Account No.:	8900297263
Policy No.:	208094-NGP

In the event that the date of any payment to Financial Security or the expiration of any time period hereunder occurs on a day which is not a Business Day, then such payment or expiration of time period shall be made or occur on the next succeeding Business Day with the same force and effect as if such payment was made or time period expired on the scheduled date of payment or expiration date. Payments to be made to Financial Security under this Agreement shall bear interest at the Late Payment Rate from the date when due to the date paid.

Section 3.04. Subrogation. The parties hereto acknowledge that, to the extent of any payment made by Financial Security pursuant to the Policy, Financial Security is to be fully subrogated to the extent of such payment and any additional interest due on any late payment, to the rights of the Authority under the Supply Agreement to any moneys paid or payable in respect of the Obligations under the City Documents. The City agrees to such subrogation.

ARTICLE IV
FURTHER AGREEMENTS

Section 4.01. Effective Date; Term of Agreement. This Agreement shall take effect on the Date of Issuance and shall remain in effect until all amounts payable by the City under the Supply Agreement and, without duplication of payment, this Agreement have been paid in full. Upon such payment, the Term of this Agreement shall terminate. Thereafter, the City shall have no further liability hereunder, and Financial Security shall upon request provide a written acknowledgement to the City of the termination of the Term of this Agreement.

Section 4.02. Further Assurances and Corrective Instruments. To the extent permitted by law, the City agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as Financial Security may reasonably request and as may be reasonably required in Financial Security's judgment to effectuate the intention of or facilitate the performance of this Agreement.

Section 4.03. Obligations Absolute. (a) The obligations of the City hereunder shall be absolute and unconditional obligations of the City, and shall be paid (but only from the Payment Source) or performed strictly in accordance with this Agreement under all circumstances irrespective of:

(i) any lack of validity or enforceability of, or any amendment or other modifications of, or waiver with respect to any of the City Documents, the Obligations or the Policy;

(ii) any exchange or release of any other obligations hereunder;

(iii) the existence of any claim, setoff, defense, reduction, abatement or other right which the City may have at any time against Financial Security or any other Person;

(iv) any document presented in connection with the Policy proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) any payment by Financial Security under the Policy against presentation of a certificate or other document which does not strictly comply with terms of the Policy;

(vi) any failure of the City to receive amounts payable to it under the City Documents;

(vii) any breach by the City or the Authority of any representation, warranty or covenant contained in any of the City Documents;

(viii) the existence of any dispute between the parties to the Supply Agreement, including, without limitation, any dispute relating to the existence or nature of a force majeure event or events, or

(ix) any other circumstances, other than payment in full, which might otherwise constitute a defense available to, or discharge of, the City in respect of any City Document.

If the City disputes the amount or validity of any payment obligation under the Supply Agreement after Financial Security has honored a claim under the Policy with respect to such amount, Financial Security may, at its option, do any or all of the following: (a) exercise remedies against the City under the Supply Agreement or hereunder to compel the payment of such amount in accordance with Section [13.3(i)] of the Supply Agreement, (b) at the expense of City, direct or assume control of any litigation, arbitration, mediation or other dispute resolution proceeding instituted by the City against the Authority relating to such dispute (or any proceeding in which any material element of such dispute is asserted as a defense to City's obligation to pay), or (c) as subrogee of the City, at City's expense, institute its own suit or other dispute resolution proceeding against the Authority for adjudication of the dispute and recoupment of any amounts by which Financial Security shall have be determined to have overpaid. Nothing in this paragraph shall relieve the City of its obligation to comply with Section [13.3(i)] of the Supply Agreement or Section 3.02 hereof.

Section 4.04. Liability of Financial Security. Neither Financial Security nor any of its officers, directors or employees shall be liable or responsible for: (a) the use which may be made of the Policy by the holder thereof or for any acts or omissions of the holder thereof in connection therewith; or (b) the validity, sufficiency, accuracy or genuineness of documents delivered to Financial Security (or its Fiscal Agent) in connection with any claim under the Policy, or of any signatures thereon, even if such documents or signatures should in fact prove to be in any or all

respects invalid, insufficient, fraudulent or forged (unless Financial Security shall have actual knowledge thereof). In furtherance and not in limitation of the foregoing, Financial Security (or its Fiscal Agent) may accept documents that appear on their face to be in order, without responsibility for further investigation.

ARTICLE V
EVENTS OF DEFAULT; REMEDIES

Section 5.01. Events of Default. The failure by the City to make a Same Day Reimbursement of any amount paid by Financial Security under the Policy shall constitute an Event of Default hereunder.

Section 5.02. Remedies; Waivers. (a) Upon the occurrence of an Event of Default, Financial Security may exercise any one or more of the rights and remedies set forth below:

(i) exercise any rights and remedies available under the City Documents in its own capacity or, if Financial Security has honored a claim on the Policy, in its capacity as subrogee to the Authority or the Trustee under the Supply Agreement; or

(ii) take whatever action at law or in equity, including, without limitation, mandamus, as may appear necessary or desirable in its judgment to collect the amounts then due and thereafter to become due under the City Documents or to enforce performance of any obligation of the City under the City Documents.

(b) Unless otherwise expressly provided, no remedy herein conferred upon or reserved is intended to be exclusive of any other available remedy, but each remedy shall be cumulative and shall be in addition to other remedies given under the City Documents or existing at law or in equity. No delay or failure to exercise any right or power accruing under any City Document upon the occurrence of any Event of Default or otherwise shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Financial Security to exercise any remedy reserved to Financial Security in this Article, it shall not be necessary to give any notice, other than such notice as may be required in this Article.

(c) If any proceeding has been commenced to enforce any right or remedy under this Agreement, and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to Financial Security, then and in every such case the parties hereto shall, subject to any determination in such proceeding, be restored to their respective former positions hereunder, and, thereafter, all rights and remedies of Financial Security shall continue as though no such proceeding had been instituted.

(d) During any period in which Financial Security is not in default under the Policy, Financial Security shall have the right, to be exercised in its complete discretion, to waive any covenant, Default or Event of Default by a writing setting forth the terms, conditions and extent of such waiver signed by Financial Security and delivered to the other parties hereto. Any such waiver may only be effected in writing duly executed by Financial Security, and no other course of conduct shall constitute a waiver of any provision hereof. Unless such writing expressly provides to the contrary, any waiver so granted shall extend only to the specific event or occurrence so waived and not to any other similar event or occurrence which occurs subsequent to the date of such waiver.

ARTICLE VI
MISCELLANEOUS

Section 6.01. Amendments, Etc. This Agreement may be amended, modified or terminated only by written instrument or written instruments signed by the parties hereto. No act or course of dealing shall be deemed to constitute an amendment, modification or termination hereof.

Section 6.02. Notices. All demands, notices and other communications to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied to the recipient as follows:

(a) To Financial Security:

Financial Security Assurance Inc.
31 West 52nd Street
New York, NY 10019
Attention: Surveillance Department
Confirmation: (212) 826-0100
Telecopy No.: (212) 339-3556

(in each case in which notice or other communication to Financial Security refers to an Event of Default or a claim on the Policy, then a copy of such notice or other communication should also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED.")

(b) To the City:

City of Roseville, California
311 Vernon Street
Roseville, California 95678
Attention: Finance Director/Treasurer
Confirmation: (916) 774-5320
Telecopy No.: (916) 746-1220

A party may specify an additional or different address or addresses by writing mailed or delivered to the other parties as aforesaid. All such notices and other communications shall be effective upon receipt.

Section 6.03. Notice Requirements. Financial Security shall be provided with the following information by the City:

(i) Annual audited financial statements within 210 days after the end of the City's fiscal year (together with a certification of the City that it is not aware of any default or Purchaser Material Default under the Supply Agreement), and the City's annual budget within 30 days after the approval thereof together with such other information, data or reports as Financial Security shall reasonably request from time to time;

(ii) Prior notice of the termination in part or whole of the Supply Agreement;

(iii) Notice of any default, Event of Default or Purchaser Material Default under the Supply Agreement or the Gas Purchase Agreement between the Authority and Merrill Lynch Commodities, Inc.

(iv) Notice of the commencement of any proceeding by or against the City commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(v) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment under the Supply Agreement;

(vi) A full original transcript of all authorizing resolutions and executed documents relating to the execution of any amendment, supplement, modification or waiver of the Supply Agreement; and

(vii) All reports, notices and correspondence to be delivered to the Authority or the Trustee other than routine gas sales and use reports and delivery confirmations or invoices.

Section 6.04. Severability. In the event that any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, the parties hereto agree that such holding shall not invalidate or render unenforceable any other provision hereof. The parties hereto further agree that the holding by any court of competent jurisdiction that any remedy pursued by any party hereto is unavailable or unenforceable shall not affect in any way the ability of such party to pursue any other remedy available to it.

Section 6.05. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, PROVIDED, THAT THE POWERS OF THE CITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 6.06. Consent of Financial Security. In the event that Financial Security's consent is required under any of the City Documents, the determination whether to grant or withhold such consent shall be made by Financial Security in its sole discretion without any implied duty towards any other Person, except as otherwise expressly provided therein.

Section 6.07. Counterparts. This Agreement may be executed in counterparts by the parties hereto, and all such counterparts shall constitute one and the same instrument.

Section 6.08. Headings. The headings of articles and sections and the table of contents contained in this Agreement are provided for convenience only. They form no part of this Agreement and shall not affect its construction or interpretation. Unless otherwise indicated, all references to articles and sections in this Agreement refer to the corresponding articles and sections of this Agreement.

Section 6.09. Limited Liability. No recourse under any City Document shall be had against, and no personal liability shall attach to, any officer, employee, director, affiliate or shareholder of any party hereto, as such, by the enforcement of any assessment or by any legal or equitable proceeding, by virtue of any statute or otherwise in respect of any of the City Documents, the Obligations or the Policy, it being expressly agreed and understood that each City Document is solely a corporate obligation of each party hereto, and that any and all personal liability, either at common law or in equity, or by statute or constitution, of every such officer, employee, director, affiliate or shareholder for breaches by any party hereto of any obligations under any City Document is hereby expressly waived as a condition of and in consideration for the execution and delivery of this Agreement.

Section 6.10. Entire Agreement. This Agreement and the Policy set forth the entire agreement between the parties with respect to the subject matter thereof, and this Agreement supersedes and replaces any agreement or understanding that may have existed between the parties prior to the date hereof in respect of such subject matter.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement, all as of the day and year first above written.

FINANCIAL SECURITY ASSURANCE INC.

By _____
Authorized Officer

CITY OF ROSEVILLE

By _____
Title _____

Section 6.10. Entire Agreement. This Agreement and the Policy set forth the entire agreement between the parties with respect to the subject matter thereof, and this Agreement supersedes and replaces any agreement or understanding that may have existed between the parties prior to the date hereof in respect of such subject matter.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement, all as of the day and year first above written.

FINANCIAL SECURITY ASSURANCE INC.

By W. Craig Robinson
Authorized Officer

CITY OF ROSEVILLE

By W. Craig Robinson
Title City Manager

APPENDIX I

DEFINITIONS

"Act" means the charter or statute of the state in which the City is organized and conducts its business that govern the formation, corporate existence and standing of the City.

"Authority" means the Roseville Natural Gas Financing Authority.

"Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the City of New York, New York or in the City where the principal corporate trust office of the Trustee is located are authorized or obligated by law or executive order to be closed.

"City Documents" means this Reimbursement Agreement and the Supply Agreement.

"City Security Document" means the document, instrument or agreement, if any, pursuant to which the City has pledged the revenues received from the sale of electricity together with other security, if any, for the payment of its obligations relating to its electric supply system or the system of which its electric supply system forms a part, and for which City is purchasing gas pursuant to the Supply Agreement.

"Customer Insurance Policy Commitment" means the commitment of Financial Security dated January 26, 2007, pursuant to which Financial Security agrees to issue the Policy subject to the conditions set forth therein.

"Date of Issuance" means the date on which the Policy is issued as specified therein.

"Default" means any event which results, or which with the giving of notice or the lapse of time or both would result, in an Event of Default.

"Electric Enterprise" means the electric utility system of the City, comprising all electric generation, transmission and distribution facilities and all general plant facilities related thereto now owned by the City and all other properties, structures or works for the generation, transmission or distribution of electricity hereafter acquired by the City, including all contractual rights for electricity or the transmission thereof, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof thereafter acquired.

"Event of Default" means any event of default specified in Section 5.01 of this Reimbursement Agreement.

"Financial Security" means Financial Security Assurance Inc., a New York stock insurance company, its successors and assigns.

"Fiscal Agent" means the Fiscal Agent, if any, designated pursuant to the terms of the Policy.

"Late Payment Rate" means the lesser of (a) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

"Lien" means, as applied to the property or assets (or the income or profits therefrom) of any Person, in each case whether the same is consensual or nonconsensual or arises by contract, operation of law, legal process or otherwise: (a) any mortgage, lien, pledge, attachment, charge, lease, conditional sale or other title retention agreement, or other security interest or encumbrance of any kind; or (b) any arrangement, express or implied, under which such property or assets are transferred, sequestered or otherwise identified for the purpose of subjecting or making available the same for the payment of debt or performance of any other obligation in priority to the payment of the general, unsecured creditors of such Person.

"Material Adverse Change" means, in respect of the City, a material adverse change in (i) the business, financial condition, results of operations or properties of the City, (ii) the ability of the City to

perform its obligations under any of the City Documents to which it is a party or (iii) the practical realization by Financial Security of any of the benefits or security afforded it under any of the City Documents.

"Obligations" means the obligations of the City under the Supply Agreement to make Contract Price Payments.

"Payment Source" means the City's revenues from the operation of its Electric Enterprise.

"Person" means an individual, joint stock company, trust, unincorporated association, joint venture, corporation, business or owner trust, partnership or other organization or entity (whether governmental or private).

"Policy" means the financial guaranty insurance policy, including any endorsements thereto, issued by Financial Security with respect to the Obligations, specifically, Policy No. 208094-NGP dated February 6, 2007.

"Premium" means the premium payable in accordance with Section 3.02 of this Reimbursement Agreement.

"Reimbursement Agreement" means this Reimbursement Agreement.

"Same Day Reimbursement" means, with respect to a payment by Financial Security under the Policy, reimbursement of such payment in accordance with Section 3.03 of this Reimbursement Agreement by 1:00 p.m. (New York, New York time) on the date the City receives the notice or other evidence of payment referred to in said Section 3.03; provided, that if the City receives such notice or other evidence of payment after 11:00 a.m. (New York, New York time) on a day, "Same Day Reimbursement" means such payment by 1:00 p.m. (New York, New York time) on the Business Day next succeeding the date on which the City receives the notice or other evidence of payment referred to in said Section 3.03.

"Supply Agreement" means the Natural Gas Supply Agreement dated as of February 1, 2007, between the City and the Authority.

"Term of the Agreement" shall be determined as provided in Section 4.01 of this Reimbursement Agreement.

"Transaction" means the transaction contemplated by the Supply Agreement.

"Trust Indenture" means the Trust Indenture between the Authority and the Trustee dated as of February 1, 2007.

"Trustee" means The Bank of New York Trust Company, N.A., a national banking association, as trustee under the Trust Indenture, and any successor.

"Underwriting Information" means all documents, agreements, instruments, schedules, certificates, statements, cash flow schedules, number runs or other writings or data containing financial, statistical, demographic, economic, or other information about the Electric Enterprise supplied to Financial Security in connection with Financial Security's evaluation of the Electric Enterprise for purposes of determining whether to issue the Commitment and deliver the Policy.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF THE CUSTOMER INSURANCE POLICY PROVIDER

I, the duly authorized undersigned officer of Financial Security Assurance Inc. (the "Customer Insurance Policy Provider"), HEREBY CERTIFY that the information contained in the Official Statement under the caption "THE CUSTOMER INSURANCE POLICY AND FINANCIAL SECURITY ASSURANCE INC." is, at the date of the Closing, true and correct in all material respects, does not contain any untrue statement of a material fact and does not omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Indenture.

Dated: February 6, 2007

FINANCIAL SECURITY ASSURANCE INC.

By: _____

Title: Associate General Counsel

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF THE BANK OF NEW YORK TRUST COMPANY, N.A.

The undersigned officer of The Bank of New York Trust Company, N.A. (the "Bank of New York"), as trustee (the "Trustee") under the Trust Indenture, dated as of February 1, 2007, between the Roseville Natural Gas Financing Authority (the "Authority") and the Trustee, relating to the Authority's Gas Revenue Bonds, Series 2007 (the "Bonds"), and as dissemination agent under the Continuing Disclosure Certificate, dated February 6, 2007 (the "Continuing Disclosure Certificate"), by and between the City of Roseville, California and the Trustee, hereby certifies as follows:

1. that the Trust Indenture, dated as of February 1, 2007, between the Authority and the Trustee, and the Continuing Disclosure Certificate, have been duly signed, acknowledged and delivered in the name and on behalf of the Bank of New York;

2. that the Bank of New York is a national banking association duly organized and existing under the laws of the United States of America;

3. that the Bank of New York has full corporate trust powers and authority to serve as Trustee under the Trust Indenture, and as Dissemination Agent under the Continuing Disclosure Certificate;

4. that the Bank of New York acknowledges and accepts its respective obligations under the Trust Indenture, and the Continuing Disclosure Certificate, as applicable, and that such acceptance is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which the Bank of New York is a party or any administrative or judicial decision by which the Bank of New York is bound;

5. that pursuant to the Trust Indenture, the Trustee has authenticated the Authority's Bonds in the aggregate principal amount of $209,350,000 in registered form and delivered the Bonds to or upon the order of Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser");

6. that each person who, as an officer of the Bank of New York, executed such Trust Indenture, and such Continuing Disclosure Certificate or authenticated any of the Bonds, was duly elected or appointed, qualified and acting as such officer and duly empowered to perform such acts at the respective times of such acts and the signatures of such persons appearing on such documents are their genuine signatures; and

7. that attached hereto as Exhibit A is a true and correct copy of an extract of the By-laws of the Bank of New York, which, at the date hereof, are in full force and effect.

Dated: February 6, 2007

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee

By: _____
Authorized Officer

Exhibit A

BY-LAWS OF THE BANK OF NEW YORK

THE BANK OF NEW YORK TRUST COMPANY, N. A.

SECRETARY'S CERTIFICATE

I do hereby certify that:

(i) I am the duly elected Assistant Secretary of The Bank of New York Trust Company, N. A., a national banking association (the "N.A.");

(ii) Attached hereto as Exhibit "A" is a true, correct copy of Signing Authorities extracts from by-laws of the N.A. adopted by action of the Board of Directors of the N.A. and presently in effect;

(iii) Attached hereto as Exhibit "B" is a list of the persons who, as of the date hereof, are certain duly elected officers of the N.A., which lists sets forth the title of each such officer next to his or her typed name, with which officers I am personally familiar; and

IN WITNESS WHEREOF, I have hereunto executed this Certificate as Assistant Secretary of the N.A. and affixed the seal of the N.A, this **6th day of February 2007.**

Inga Keldsen, Assistant Secretary
The Bank of New York Trust Company, N.A.

(Corporate Seal)

I hereby certify that as of the date hereof that Inga Keldsen is the duly elected Assistant Secretary of The Bank of New York Trust Company, N.A. and that the signature which appears on the foregoing pages is the signature of Inga Keldsen and that it is a signature with which I am personally familiar and do certify as to its authenticity.

Dated: **February 6, 2007**

By: Sally Ronquillo
Title: Asst. Vice President

THE BANK OF NEW YORK TRUST COMPANY, N.A.

I, the undersigned, Heather A. Sisler, Assistant Secretary of The Bank of New York Trust Company, N.A., a national banking association organized under the laws of the United States (the "Association") and located in the State of California, DO HEREBY CERTIFY that the following individuals are duly appointed and qualified Officers or qualified Employees of the Association:

Officer	Title	Signing Authority
Michael K. Klugman	President	X (Senior)
Maria E. Allison	Vice President	A, C1, J
Eladia Burgos	Vice President	A, C2, J
M. Rose Bystrom	Vice President & Assistant Secretary	A, C1, J
Milly P. Canessa	Vice President	A, C4, J
Teresa R. Fructuoso	Vice President	A, C2, J
Evelyn T. Furukawa	Vice President & Assistant Secretary	A, C1, J
Mark A. Golder	Vice President	A, C2, J
Vicki Herrick	Vice President	A, C4, J
Inga Keldsen	Vice President & Assistant Secretary	A, C1, J
Johanna Kennelly	Vice President	A, C4, J
Josephine Libunao	Vice President	A, C2, J
Leigh M. Lutz	Vice President & Assistant Secretary	A, C1, J
Gary B. Nelson	Vice President & Assistant Secretary	A, C1, J
Jacqueline M. Nowak	Vice President	A, C4, J
Linda G. Ojeda	Vice President & Assistant Secretary	A, C1, J
Tomas S. Orlina, Jr.	Vice President	A, C4, J
Sandee' Parks	Vice President	A, C1, J
Teresa Petta	Vice President	A, C2, J
Frank P. Sulzberger	Vice President & Assistant Secretary	X
Deborah Young	Vice President	A, C3, J
Melonee Young	Vice President	A, C2, J
Gregory B. Chenail	Assistant Vice President	A, C4, J
Patricia Cronin	Assistant Vice President	A, C4, J
Priscilla R. Dedoro	Assistant Vice President	A, C4, J
Kathleen Gylland	Assistant Vice President	A, C4, J
Mary D. Lee	Assistant Vice President	A, C4, J
Patrick Matanane	Assistant Vice President	A, C4, J
Marina Meza	Assistant Vice President	A, C4, J
Melinda Murrell	Assistant Vice President	A, C4, J
Agnes Obando	Assistant Vice President	A, C4, J
Gloria Ramirez	Assistant Vice President	A, C4, J
Rosalinda Ronquillo	Assistant Vice President Assistant Secretary	A, C4, J
Lisa Stroud	Assistant Vice President	A, C2, J
Perry Tobe	Assistant Vice President	A, C4, J
Johanna K. Tokunaga	Assistant Vice President	A, C4, J
Gonzalo Urey	Assistant Vice President	A, C4, J
Christopher Davy	Assistant Treasurer	A, C4, J
Elizabeth Doomey	Assistant Treasurer	A, C4, J
Christina Garchitorena	Assistant Treasurer	A, C4, J
Alan Maravilla	Assistant Treasurer	A, C4, J
Helen B. McNulty	Assistant Treasurer	A, C4, J
Aurora Y. Quiazon	Assistant Treasurer	A, C4, J

Zenaida Rodriguez	Assistant Treasurer	A, C4, J
Fe R. Tuzon	Assistant Treasurer	A, C4, J
Gene Romaine	Agency Administrator	A, C4, J

I further certify that as of this date they have been authorized to sign on behalf of the Association in discharging or performing their duties in accordance with the senior and limited signing powers provided under Article V, Sections 5.2 and 5.3 of the By-Laws of the Association and the paragraphs indicated above of the signing authority resolution of the Board of Directors of the Association.

Attached hereto are true and correct copies of excerpts of the By-Laws of the Association and the signing authority resolution, which have not been amended or revised since January 20, 2005 and are in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of The Bank of New York Trust Company, N.A. this 13th day of March, 2006.

Heather A. Sisler, Assistant Secretary

Extracts from By-Laws

Of

The Bank of New York Trust Company, N.A.

As Amended Through January 20, 2005

ARTICLE V
SIGNING AUTHORITIES

Section 5.1 Real Property. Real property owned by the Association in its own right shall not be deeded, conveyed, mortgaged, assigned or transferred except when duly authorized by a resolution of the Board. The Board may from time-to-time authorize officers to deed, convey, mortgage, assign or transfer real property owned by the Association in its own right with such maximum values as the Board may fix in its authorizing resolution.

Section 5.2. Senior Signing Powers. Subject to the exception provided in Section 5.1, the President and any Executive Vice President is authorized to accept, endorse, execute or sign any document, instrument or paper in the name of, or on behalf of, the Association in all transactions arising out of, or in connection with, the normal course of the Association's business or in any fiduciary, representative or agency capacity and, when required, to affix the seal of the Association thereto. In such instances as in the judgment of the President, or any Executive Vice President may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer to have the powers set forth in this section applicable only to the performance or discharge of the duties of such officer within his or her particular division or function. Any officer of the Association authorized in or pursuant to Section 5.3 to have any of the powers set forth therein, other than the officer signing pursuant to this Section 5.2, is authorized to attest to the seal of the Association on any documents requiring such seal.

Section 5.3. Limited Signing Powers. Subject to the exception provided in Section 5.1, in such instances as in the judgment of the President or any Executive Vice President, may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer, employee or individual to have the limited signing powers or limited power to affix the seal of the Association to specified classes of documents set forth in a resolution of the Board applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function.

Section 5.4. Powers of Attorney. All powers of attorney on behalf of the Association shall be executed by any officer of the Association jointly with the President, any Executive Vice President, or any Managing Director, provided that the execution by such Managing Director of said Power of Attorney shall be applicable only to the performance or discharge of the duties of said officer within his or her particular division or function. Any such power of attorney may, however, be executed by any officer or officers or person or persons who may be specifically authorized to execute the same by the Board of Directors.

Section 5.5. Auditor. The Auditor or any officer designated by the Auditor is authorized to certify in the name of, or on behalf of the Association, in its own right or in a fiduciary or representative capacity, as to the accuracy and completeness of any account, schedule of assets, or other document, instrument or paper requiring such certification.

SIGNING AUTHORITY RESOLUTION

Pursuant to Article V, Section 5.3 of the By-Laws

RESOLVED that, pursuant to Section 5.3 of the By-Laws of the Association, authority be, and hereby is, granted to the President or any Executive Vice President, in such instances as in the judgment of any one of said officers may be proper and desirable, to authorize in writing from time-to-time any other officer, employee or individual to have the limited signing authority set forth in any one or more of the following paragraphs applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function:

(A) All signing authority set forth in paragraphs (B) through (I) below except Level C which must be specifically designated.

(B1) Individuals authorized to accept, endorse, execute or sign any bill receivable; certification; contract, document or other instrument evidencing, embodying a commitment with respect to, or reflecting the terms or conditions of, a loan or an extension of credit by the Association; note; and document, instrument or paper of any type, including stock and bond powers, required for purchasing, selling, transferring, exchanging or otherwise disposing of or dealing in foreign currency, derivatives or any form of securities, including options and futures thereon; in each case in transactions arising out of, or in connection with, the normal course of the Association's business.

(B2) Individuals authorized to endorse, execute or sign any certification; disclosure notice required by law; document, instrument or paper of any type required for judicial, regulatory or administrative proceedings or filings; and legal opinions.

(C1) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of $100,000,000. with single authorization for all transactions.

(C2) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of $100,000,000*.

(C3) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $100,000,000.

(C4) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check

certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $10,000,000.

(C5) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $5,000,000.

(C6) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $1,000,000.

(C7) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $250,000.

(C8) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $50,000.

(C9) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $5,000.

*Dual authorization is required by any combination of senior officer and/or Sector Head approved designee for non-exempt transactions. Single authorization required for exempt transactions.

(D1) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $1,000,000.

(D2) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $250,000.

(D3) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $50,000.

(D4) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $5,000.

(E) Authority to accept, endorse, execute or sign any guarantee of signature to assignments of stocks, bonds or other instruments; certification required for transfers and deliveries of stocks, bonds or other instruments; and document,

instrument or paper of any type required in connection with any Individual Retirement Account or Keogh Plan or similar plan.

(F) Authority to accept, endorse, execute or sign any certificate of authentication as bond, unit investment trust or debenture trustee and on behalf of the Association as registrar and transfer agent.

(G) Authority to accept, endorse, execute or sign any bankers acceptance; letter of credit; and bill of lading.

(H) Authority to accept, endorse, execute or sign any document, instrument or paper of any type required in connection with the ownership, management or transfer of real or personal property held by the Association in trust or in connection with any transaction with respect to which the Association is acting in any fiduciary, representative or agency capacity, including the acceptance of such fiduciary, representative or agency account.

(I1) Authority to effect the external movement of free delivery of securities and internal transfers resulting in changes of beneficial ownership.

(I2) Authority to effect the movement of securities versus payment at market or contract value.

(J) Authority to either sign on behalf of the Association or to affix the seal of the Association to any of the following classes of documents: Trust Indentures, Escrow Agreements, Pooling and Servicing Agreements, Collateral Agency Agreements, Custody Agreements, Trustee's Deeds, Executor's Deeds, Personal Representative's Deeds, Other Real Estate Deeds for property not owned by the Association in its own right, Corporate Resolutions, Mortgage Satisfactions, Mortgage Assignments, Trust Agreements, Loan Agreements, Trust and Estate Accountings, Probate Petitions, responsive pleadings in litigated matters and Petitions in Probate Court with respect to Accountings, Contracts for providing customers with Association products or services.

(N) Individuals authorized to accept, endorse, execute or sign internal transactions only, (i.e., general ledger tickets); does not include the authority to authorize external money movements, internal money movements or internal free deliveries that result in changes of beneficial ownership.

RESOLVED, that any signing authority granted pursuant to this resolution may be rescinded by the President or any Executive Vice President and such signing authority shall terminate without the necessity of any further action when the person having such authority leaves the employ of the Association.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

RECEIPT FOR THE BONDS

February 6, 2007

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

The Bank of New York Trust Company, N.A., as Trustee
550 Kearny Street, Suite 600
San Francisco, CA 94108

Ladies and Gentlemen:

Pursuant to the Bond Purchase Contract, dated January 24, 2007, between Roseville Natural Gas Financing Authority (the "Authority") and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser"), we hereby acknowledge receipt from The Bank of New York Trust Company, N.A., as trustee (the "Trustee") under the Trust Indenture, dated February 1, 2007, between Authority and the Trustee, of the following: $209,350,000 aggregate principal amount of the Authority's Gas Revenue Bonds, Series 2007 (the "Bonds").

We have wired immediately available funds to the Trustee, with respect to the Bonds, the following amount: $223,670,970.87, which amount, together with $124,992.00 wired by the Purchaser (at the direction of and for the account of the Authority) to Financial Security Assurance Inc. (the "Customer Insurance Policy Provider") as the premium for the Customer Insurance Policy, represents the purchase price of the Bonds set forth in the Bond Purchase Contract.

The undersigned hereby acknowledges receipt of, or waives the requirement for, each document, certificate and opinion contemplated by the Bond Purchase Contract, and acknowledges that each such document, certificate and opinion, to the extent not waived, is satisfactory as to its form and substance.

Very truly yours,

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By: Gregory E. Dawley

Title: Vice President

Receipt of full payment for
the Bonds as aforesaid from the Purchaser
and receipt of the Customer Insurance
Policy from the Customer Insurance Policy
Provider is hereby acknowledged.

This 6th day of February, 2007.

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as TRUSTEE

By: _____
Authorized Officer

NIXON PEABODY LLP
ATTORNEYS AT LAW

Two Embarcadero Center
San Francisco, CA 94111-3996
(415) 984-8200
Fax (415) 984-8300

$197,650,000*
Roseville Natural Gas Financing Authority
Gas Revenue Bonds
Series 2007

PRELIMINARY BLUE SKY SURVEY

January 18, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated
101 California Street
Suite 1225
San Francisco, CA 94111

Ladies and Gentlemen:

This Preliminary Blue Sky Survey sets forth in summary form our comments as to the requirements of the securities or "blue sky" laws of the jurisdictions enumerated herein with respect to the proposed offering and sale to the public, brokers or dealers, and certain institutional investors, of the above-captioned $197,650,000* Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007 (the "Bonds").

This Preliminary Blue Sky Survey is based upon an examination of the various statutes and the related rules, regulations and policy statements, if any, issued thereunder, as reported in standard compilations customarily relied upon in this connection, and upon statements contained in the Preliminary Official Statement relating to the Bonds in the form initially distributed.

We have prepared this Preliminary Blue Sky Survey as attorneys admitted to practice in the State of California, and we have obtained neither opinions from members of the Bar of any other jurisdiction nor formal rulings from regulatory commissions or other administrative bodies or officials. The statements made and conclusions expressed herein are subject to change upon the exercise of broad discretionary powers vested in administrative authorities, which powers authorize them, among other things, to withdraw exemptions, to impose additional requirements, to refuse registrations or to issue stop orders.

*Preliminary, subject to change

10247241.1

This Preliminary Blue Sky Survey does not purport to cover the requirements under any of the laws of the jurisdictions enumerated herein with respect to the registration or licensing of dealers, brokers or salespersons, the form or substance of advertising or the legality of investments in the Bonds by any institutional investor which is subject to statutory or other restrictions as to its investments. This Preliminary Blue Sky Survey is furnished for general information purposes only and is not to be relied upon as an opinion of counsel.

Very truly yours,

NIXON PEABODY LLP

PART I

SALES BY PERSONS REGISTERED OR LICENSED AS BROKERS OR DEALERS TO THE PUBLIC

A. Jurisdictions Where Qualification Not Required.

Offers and sales of the Bonds may be made in any amount to anyone in the following jurisdictions without qualification or registration of the Bonds or the making of any filing or the payment of applicable fees in lieu of such registration or qualification, but only by brokers or dealers registered or licensed in the respective jurisdictions:

Alabama
Alaska
Arizona
Arkansas
California
Colorado
Connecticut
Delaware
District of Columbia
Florida[1]
Georgia
Guam
Hawaii[2]
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
Nevada
New Hampshire
New Jersey
New Mexico
New York
North Carolina
North Dakota
Ohio[3]
Oklahoma
Oregon
Pennsylvania
Puerto Rico
Rhode Island
South Carolina
South Dakota
Tennessee
Texas
Utah
Vermont
Virginia
Washington
West Virginia
Wisconsin
Wyoming

(1) Provided that if there has been a default as to payment of principal or interest, since December 31, 1975, on any obligation of the issuer or a successor to the issuer or any guarantee by the guarantor or any successor to the guarantor of the Bonds, there has been and will be in any offering literature "full and fair disclosure," as prescribed by the Florida Department of Banking and Finance, of such default or a statement that the disclosure is required and the reason it is not deemed appropriate and material.

(2) All offering materials must clearly indicate the name of the person circulating such offering materials and the fact that such person is circulating such offering materials.

(3) Provided at the time of first sale of the Bonds in this jurisdiction, there is no default in the payment of any of the interest or principal on the Bonds, nor are there any adjudications or pending suits adversely affecting the validity of the Bonds.

B. Jurisdictions Where Qualification Not Requested.

In the following jurisdictions, appropriate action is required to either perfect or obtain an exception for the Bonds or qualify the Bonds before the Bonds may be sold or offered to anyone therein other than in exempt transactions. Pursuant to your request, no such action is being taken to establish an exempt status for or to register or qualify the Bonds for offer or sale to the public in the following jurisdictions, or in lieu thereof, to pay the applicable registration or qualification fees unless otherwise indicated in the notes below:

None

PART II

SALES TO BROKERS OR DEALERS

Offers and sales of the Bonds may be made in any amount to brokers or dealers registered or licensed in the following jurisdictions, subject to the qualifications indicated in the notes, without registration of the Bonds or any filings being made. Subject to the qualifications indicated in the notes, such offers and sales may be made either by brokers or dealers registered or licensed in the respective jurisdictions or where such persons are not so registered or licensed as indicated in the notes below.

Alabama	Kentucky[1]	Ohio
Alaska[1]	Louisiana	Oklahoma[1]
Arizona[2]	Maine[8]	Oregon[2]
Arkansas[3]	Maryland[9]	Pennsylvania[1]
California[4]	Massachusetts[1]	Puerto Rico[1]
Colorado[5]	Michigan[10]	Rhode Island[14]
Connecticut[1]	Minnesota[1]	South Carolina[8]
Delaware[1]	Mississippi[1]	South Dakota[1]
District of Columbia[6]	Missouri[1]	Tennessee[15]
Florida	Montana[1]	Texas[16]
Georgia	Nebraska[9]	Utah[1]
Guam[1]	Nevada[11]	Vermont[1]
Hawaii[1] [7]	New Hampshire[9]	Virginia
Idaho[1]	New Jersey[12]	Washington[1]
Illinois	New Mexico[13]	West Virginia[1]
Indiana[1]	New York	Wisconsin[12]
Iowa[1]	North Carolina[1]	Wyoming[1]
Kansas[1]	North Dakota	

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(1) Provided the offeror or seller (i) is registered as a broker or dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through brokers, dealers or broker-dealers or with institutions enumerated with respect to this jurisdiction in Part III herein.

(2) Provided the offeror or seller (i) is a registered broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions exclusively with other broker-dealers registered or exempt from registration in this jurisdiction.

(3) Provided the offeror or seller (i) is registered as a broker-dealer in Arkansas, or (ii) has no place of business in Arkansas and effects transactions in Arkansas exclusively with or through other broker-dealers, savings and loan associations or with institutions enumerated with respect to Arkansas in Part III herein.

(4) Provided the offeror or seller (i) is registered as a broker-dealer in California, or (ii) is a broker-dealer registered under the Securities Exchange Act of 1934, who has not previously had any certificate denied or revoked under the California Corporate Securities Law of 1968 or any predecessor statute, has no place of business in California and does not direct offers to sell or buy into California in any manner to persons other than registered broker-dealers or institutions enumerated with respect to California in Part III herein.

(5) Provided the offeror or seller (i) is registered as a broker or dealer in Colorado, or (ii) is a broker or dealer registered pursuant to the Securities Exchange Act of 1934, has no place of business in Colorado and effects transactions in Colorado exclusively with other broker-dealers registered or exempt from registration in Colorado, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers, or with the institutions enumerated with respect to Colorado in Part III herein.

(6) Provided the offeror or seller (i) is registered as a broker-dealer in the District of Columbia or (ii) has no place of business in the District of Columbia and effects transactions in the District of Columbia exclusively with depository institutions, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit-sharing trusts or other financial institutions or institutional investors.

(7) All offering materials must clearly indicate the name of the person circulating such offering materials and the fact that such person is circulating such offering materials.

(8) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the transactions effected by the broker-dealer in this jurisdiction are exclusively with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers; or (3) or institutions enumerated with respect to this jurisdiction in Part III

(9) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through banks, savings institutions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit sharing trusts, or other financial or institutional buyers.

(10) Provided the offeror or seller (i) is registered as a broker-dealer in Michigan or (ii) has no place of business in Michigan and effects transactions in Michigan exclusively with or through banks, saving institutions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit sharing trusts, or other institutional buyers or financial institutions.

(11) Provided the offeror or seller (i) is registered as a broker-dealer in Nevada, or (ii) is registered, or not required to be registered under the Securities Exchange Act of 1934 and has no place of business in Nevada and effects transactions exclusively with other broker-dealers licensed or exempt under the Nevada Revised Statutes, as amended or with institutions enumerated with respect to Nevada in Part III herein.

(12) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) effects transactions in this jurisdiction exclusively for the account of registered broker-dealers or with institutions enumerated with respect to this jurisdiction in Part III herein.

(13) Provided the offeror or seller (i) is registered as a broker-dealer in New Mexico, or (ii) is registered under the Securities Exchange Act of 1934 and has no place of business in New Mexico and effects transactions exclusively with any broker-dealer licensed or exempt under the New Mexico Securities Act of 1986 or institutions enumerated with respect to New Mexico in Part III herein.

(14) Provided the offeror or seller (i) is registered as a broker-dealer in Rhode Island or (ii) is registered or not required to be registered under the Securities Exchange Act of 1934 and has no place of business in Rhode Island and effects transactions in Rhode Island exclusively with any broker dealer and such financial or institutional investors enumerated with respect to Rhode Island in Part III herein.

(15) Provided the offeror or seller (i) is registered or licensed as a broker-dealer in Tennessee or (ii) has no place of business in Tennessee and is registered as a broker-dealer with the Securities and Exchange Commission or the National Association of Securities Dealers and effects transactions in Tennessee exclusively with or through registered or licensed broker-dealers or with the institutions enumerated with respect to Tennessee in Part III herein.

(16) Provided the offeree or purchaser is a registered dealer actually engaged in buying and selling securities.

PART III

SALES TO CERTAIN INSTITUTIONS

Offers and sales of the Bonds may be made to the specified institutions in the following jurisdictions, subject to the qualifications indicated in the notes, without registration or qualification of the Bonds or any filings being made. Subject to the qualifications indicated in the notes, such offers and sales may be made either by dealers or brokers registered or licensed in the respective jurisdictions or by persons not so registered or licensed. The status of the Bonds with respect to eligibility for investment by the institutions mentioned herein is not covered in this Survey.

Alabama ..... Any bank, savings institution, credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Alaska[1] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Arizona[2] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Arkansas[3] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

California[4][5] ..... Any bank, savings and loan association, trust company, insurance company, investment company registered under the Investment Company Act of 1940, pension or profit-sharing trust (other than a pension or profit-sharing trust of the issuer, a self-employed individual retirement plan, or individual retirement account), or such other institutional investor or governmental agency or instrumentality designated by rule of the Commissioner of Corporations, or any corporation with outstanding securities registered under Section 12 of the Securities Exchange Act of 1934 or any wholly owned subsidiary of such a corporation which after the offer and sale will own directly or indirectly 100 percent of the outstanding capital stock of the issuer; provided the purchaser represents that it

is purchasing for its own account (or for such trust account) for investment and not with a view to or for sale in connection with any distribution of the security.

Colorado[6] ..... Any depository institution; insurance company; a separate account of an insurance company; an investment company registered under the federal "Investment Company Act of 1940"; a business development company as defined in the federal "Investment Company Act of 1940"; any private business development company as defined in the federal "Investment Advisers Act of 1940"; an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of five million dollars or its investment decisions are made by a named fiduciary, as defined in the federal "Employee Retirement Income Security Act of 1974", that is a broker-dealer registered under the federal "Securities Exchange Act of 1934", an investment adviser registered or exempt from registration under the federal "Investment Advisers Act of 1940", a depository institution, or an insurance company; an entity, but not an individual, a substantial part of whose business activities consist of investing, purchasing, selling or trading in securities of more than one issuer and not of its own issue and that has total assets in excess of five million dollars as of the end of its latest fiscal year; a small business investment company licensed by the federal small business administration under the federal "Small Business Investment Act of 1958"; and any other institutional buyer.

Connecticut[1] ..... Any bank and trust company, national banking association, savings bank, savings and loan association, federal savings and loan association, federal savings bank, credit union, federal credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Delaware[1] [7] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

District of Columbia[8] ..... Any depository institution, insurance company, separate account of an insurance company, investment company registered under the Investment Company Act of 1940, business development company as defined in the Investment Company Act of 1940, employee pension or

profit-sharing or benefit plan if the plan has total assets in excess of $5 million or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment advisor registered or exempt from registration under the Investment Advisors Act of 1940, a depository institution or an insurance company, a "qualified institutional buyer" as defined in SEC Rule 144A, an accredited investor as defined in SEC Rule 501(a), a limited liability company with net assets of at least $500,000.

Florida.....Any bank or trust company, savings institution, insurance company, investment company as defined by the Investment Company Act of 1940, or pension or profit-sharing trust, or qualified institutional buyer as defined in Securities and Exchange Commission Rule 144A (17 C.F.R. 230.144(A)(a)).

Georgia.....Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, as now or hereafter amended, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust, or other financial institution.

Guam[1].....Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Hawaii[1][9].....Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Idaho[1][10].....Any institutional investor.

Illinois[11].....Any corporation, bank, savings bank, savings institution, savings and loan association, trust company, insurance company, building and loan association, pension fund, pension trust, employees' profit-sharing trust, or other financial institution or institutional investor, or any government or political subdivision or instrumentality thereof; any partnership or other association engaged as a substantial part of its business or operations in purchasing

or holding securities, or any trust in respect of which a bank or trust company is trustee or co-trustee; any entity in which at least ninety percent (90%) of the equity is owned by person described in subsections C, H or S of Section 4[5/4] of the Illinois Securities Law of 1953, as amended, any employee benefit plan within the meaning of Title I of the Federal ERISA Act if the investment decision is made by a plan fiduciary as defined in §3(21) of the federal ERISA Act and such plan fiduciary is either a bank, savings and loan association, insurance company, registered investment adviser or the plan has total assets in excess of $5,000,000, or, in the case of a self-directed plan, investment decisions are made solely by persons described under subsections C, D, H or S of Section 4[5/4] of the Illinois Securities Law of 1953, as amended, or to a plan established and maintained by, and for the benefit of the employees of, any state or political subdivision or agency or instrumentality thereof if such plan has total assets in excess of $5,000,000, or to any organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, any Massachusetts or similar business trust, or any partnership, if such organization, trust or partnership has total assets in excess of $5,000,000.

Indiana[1] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Iowa[1][12] ..... Any institutional investor.

Kansas[1][13] ..... Any institutional investor.

Kentucky[1] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Louisiana ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, as now or hereafter amended, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust, or other financial institution.

Maine[14][15] ..... Any institutional investor.

Maryland[16][17] ..... Any investment company as defined in the Investment Company Act of 1940, an investment adviser with assets under management of not less than $1,000,000, savings and loan association, bank, trust company, insurance company, employee benefit plan with assets of not less than $1,000,000, or governmental agency or instrumentality, whether acting for itself or as a trustee or a fiduciary with investment control or other institutional investor as designated by rule or order.

Massachusetts[1][18] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Michigan[19][20] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, the federal national mortgage association, the federal home loan mortgage corporation or the government national mortgage association, any pension or profit-sharing trust the assets of which are managed by an institutional manager, the treasurer of the State of Michigan, other financial institution or a lender approved by the federal housing administration.

Minnesota[1][21] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, or other financial institution or institutional buyer.

Mississippi[1] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Missouri[1][10] ..... Any institutional investor.

Montana[1][22] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Nebraska[16][23] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer or to an individual accredited investor.

Nevada[24][25] ..... Any financial or institutional investor.

New Hampshire[16] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit sharing trust, venture capital company which operates a small business investment company under the Small Business Investment Act of 1958, as amended, or other financial institution or institutional buyer.

New Jersey[26] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

New Mexico[24][27] ..... Any financial or institutional investor.

New York ..... Any state or national bank, trust company or savings institution incorporated under the laws and subject to the examination, supervision and control of any state or of the United States or of any insular possession thereof, any dealer or broker, or any syndicate, corporation or other group formed for the specific purpose of acquiring such securities for resale to the public directly or through other syndicates or groups.

North Carolina[1][28] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

North Dakota ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust or similar benefit plan, other financial institution or qualified institutional buyer or any government or political subdivision or instrumentality thereof.

Ohio ..... Any corporation, bank, insurance company, pension fund or pension fund trust, employees' profit sharing fund or employees' profit sharing trust, or any association engaged, as a substantial part of its business or operations, in purchasing or holding securities, or any trust in respect of which a bank is trustee or co-trustee or any "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933.

Oklahoma[1][13] ..... Any institutional investor.

Oregon[2] ..... Any bank, savings institution, trust company, insurance company, investment company, pension or profit-sharing trust, financial institution or institutional buyer (including but not limited to the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the United States Department of Veteran's Affairs and the Government National Mortgage Association), or mortgage broker or mortgage banker.

Pennsylvania[1][29] ..... Any bank, insurance company, pension or profit-sharing plan or trust (except a municipal pension plan or system), investment company as defined in the Investment Company Act of 1940, or any person, other than an individual, which controls any of the foregoing, the Federal Government, state or any agency or political subdivision thereof, except public school districts in Pennsylvania, or any other person designated as an institutional investor by regulation of the Pennsylvania Securities Commission.

Puerto Rico[1] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Companies Act of Puerto Rico, pension or profit-sharing trust, or other financial institution or institutional buyer.

Rhode Island[30] ..... Any depository institution; an insurance company or separate account of an insurance company; an investment company as defined in the Investment Company Act of 1940; an employee pension, profit-sharing or benefit plan if the plan has total assets in excess of five million dollars ($5,000,000) or if investment decisions are made by a plan fiduciary, as defined in the Employee Retirement Income Security Act of 1974, which is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company; and any other institutional buyer.

South Carolina[14][15] ..... Any institutional investor.

South Dakota[1][13] ..... Any institutional investor.

Tennessee[31] ..... Any bank, unless the bank is acting as a broker-dealer as such term is defined in the Tennessee Securities Act of

1980, trust company, insurance company, investment company registered under the Investment Company Act of 1940, as amended, a holding company which controls any of the foregoing, a trust or fund over which any of the foregoing has or shares investment discretion, a pension or profit sharing plan, an institutional buyer or any other person engaged as a substantial part of its business in investing in securities, provided such purchaser has a net worth in excess of $1,000,000.

Texas[32] ..... Any bank, trust company, building and loan association, insurance company, surety or guaranty company, savings institution, investment company as defined in the Investment Company Act of 1940 or small business investment company as defined in the Small Business Investment Act of 1958, as amended, provided the securities are purchased by such institution for its own account or as a bona fide trustee of a trust organized and existing other than for the purpose of acquiring the securities.

Utah[1] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional investor.

Vermont[1][13] ..... Any institutional investor.

Virginia ..... Any corporation, investment company or pension or profit-sharing trust.

Washington[1][33] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

West Virginia[1] ..... Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer.

Wisconsin[34][35] ..... Any bank, savings institution, savings bank, credit union, trust company, insurer, investment adviser, federal covered advisor or savings and loan association, if the purchaser or prospective purchaser is acting for itself or as trustee with investment control; an investment company as defined under 15 USC 80a-3 or a pension or profit-sharing trust or

an individual retirement plan, including a self-employed individual retirement plan, provided the trust or plan is administered by a bank, savings institution, credit union, trust company, insurer, broker-dealer, investment adviser or savings and loan association that has investment control; the State of Wisconsin or any of its agencies or political subdivisions; the federal government or any of its agencies or instrumentalities; any financial institution or institutional investor designated by the Commissioner of Securities; and an accredited investor.

Wyoming[1].....Any bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit sharing trust, or other financial institution or institutional buyer.

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(1) Provided the offeror or seller (i) is registered or licensed as a dealer or broker in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through registered or licensed dealers or brokers or with institutions enumerated with respect to this jurisdiction in this Part.

(2) Provided the offeror or seller (i) is a registered broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction and effects transactions exclusively with other broker-dealers registered or exempt from registration in this jurisdiction.

(3) Provided the offeror or seller (i) is registered as a broker-dealer in Arkansas, or (ii) has no place of business in Arkansas and effects transactions in Arkansas exclusively with or through other broker-dealers, savings and loan associations or with institutions enumerated with respect to Arkansas in this Part.

(4) Provided the offeror or seller (i) is registered as a broker-dealer in California, or (ii) is a broker-dealer registered under the Securities Exchange Act of 1934, who has not previously had any certificate denied or revoked under the California Corporate Securities Law of 1968 or any predecessor statute, has no place of business in California and does not direct offers to sell or buy into California in any manner to persons other than registered broker-dealers or to institutions enumerated with respect to California in this Part.

(5) The institutional investors, governmental agencies and instrumentalities designated by rule of the Commissioner of Corporations are: (a) any organization described in Section 501(c)(3) of the Internal Revenue Code, as amended December 29, 1981, which has total assets (including endowment, annuity and life income funds) of not less than $5,000,000 according to its most recent audited financial statement; (b) any corporation which has a net worth on a consolidated basis according to its most recent audited financial statement of not less than $14,000,000; (c) any wholly owned subsidiary of any institutional investor designated in this Part; and (d) the Federal Government, any agency or instrumentality of the Federal Government, any corporation wholly owned by the Federal Government, any state, any city, city and county, or county, or any agency or instrumentality of such governments, any state university or state college, and any retirement system for the benefit of employees of any of the foregoing.

(6) Provided the offeror or seller (i) is registered as a broker-dealer in Colorado, or (ii) is a broker-dealer registered pursuant to the Securities Exchange Act of 1934, has no place of business in Colorado and effects transactions in Colorado exclusively with or through other broker-dealers registered or exempt from registration in Colorado, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers, or with institutions enumerated with respect to Colorado in this Part.

(7) The term "institutional buyer" includes, but is not limited: (i) an "accredited investor" as defined by SEC Rule 501 (a)(1)-(4), (7) and (8) excluding, however, any self-directed employee benefit plan with investment decisions made solely by persons that are "accredited investors" as defined in Rule 501 (a)(5)-(6); (ii) any "qualified institutional

buyer" as that term is defined in SEC Rule 144A(a)(1) and (iii) a corporation, partnership, trust, estate or other entity (excluding individuals) having a net worth of not less than $5 million or a wholly owned subsidiary of such entity, as long as the entity was not formed for the purpose of acquiring the specific securities, but the offer or sale securities is not exempt under Section 7309(b)(8) of the Delaware Securities Act if the institutional buyer is in fact acting only as an agent for another purchaser that is not an institutional buyer or financial institution listed in Section 7309(b)(8) of the Delaware Securities Act.

(8) Provided the offeror or seller (i) is registered as a broker-dealer in the District of Columbia or (ii) has no place of business in the District of Columbia and effects transactions in the District of Columbia exclusively with depository institutions, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit-sharing trusts or other financial institutions or institutional buyers.

(9) All offering material must clearly indicate the name of the person circulating it and the fact that such person is circulating it.

(10) The term "institutional investor" means any of the following, whether acting for itself or for others in a fiduciary capacity, (i) a depository institution, a trust company organized or chartered under the laws of this jurisdiction, or an international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the securities exchange act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of ten million dollars ($10,000,000) or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the laws of this jurisdiction, a depository institution, or an insurance company; (vii) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of ten million dollars ($10,000,000) or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the laws of this jurisdiction, a depository institution or an insurance company; (viii) a trust, if it has total assets in excess of ten million dollars ($10,000,000), its trustee is a depository institution, and its participants are exclusively plans of the types identified in the immediately preceding two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code (26 U.S.C. Section 501(c)(3)), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of ten million dollars ($10,000,000); (x) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. Section 681(c)) with total assets in excess of ten million dollars ($10,000,000); (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-2(a)(22)) with total assets in excess of ten million dollars ($10,000,000); (xii) a federal covered investment adviser acting for its own account; (xiii) a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act of 1933 (17 C.F.R. 230.144A); (xiv) a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934 (17 C.F.R. 240.15a-6); (xv) any other person, other than an individual, of institutional character with total assets in excess of ten million dollars ($10,000,000) not organized for the specific purpose of evading this act; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.

(11) The term "institutional investor" shall include, but not be limited to: (a) any investment company, university, or other organization whose primary purpose is to invest its own assets or those held in trust by it for others; (b) any trust account or individual or group retirement account in which a bank, trust company, insurance company or savings and loan institution acts in a fiduciary capacity; and (c) any foundation or endowment fund exempt from taxation under the Internal Revenue Code, a principal business function of which is to invest funds to produce income in order to carry out the purpose of the foundation or fund. The Illinois Securities Department has also defined "financial institution" to include, but not be limited to, a manager of investment accounts on behalf of other than natural persons, who, with affiliates, exercises sole investment discretion with respect to such accounts and provided such accounts exceed 10 in number and have a fair market value of not less than $10,000,000 at the end of the preceding calendar month.

(12) The term "institutional investor" means any of the following, whether acting for itself or for others in a fiduciary capacity: (i) a depository institution or international banking institution; (ii) a insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the Securities Exchange Act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of five million dollars or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment advisor registered or exempt from registration under the Investment Advisors Act of 1940, an investment advisor registered under this chapter, a depository institution, or an insurance company; (vii) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of five million dollars or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment advisor registered or exempt from registration under the Investment Advisers Act of 1940, an investment advisor registered under this chapter, a depository institution, or an insurance company; (viii) a trust, if it has total assets in excess of five million dollars, its trustee is a depository institution, and its participants are exclusively plans of the types identified in the two immediately preceding clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (iv) an organization described in section 501(c)(3) of the Internal Revenue Code, 26 U.S.C. Section 501(c)(3), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of five million dollars; (x) a small business investment company licensed by the small business administration under section 301(c) of the Small Business Investment Act of 1958, 15 U.S.C. Section 681(c), with total assets in excess five million dollars; (xi) a private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940, 15 U.S.C. Section 80b-2(a)(22), with total assets in excess of five million dollars; (xii) a federal covered investment adviser acting for its own account; (xiii) a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(i)(H), adopted by the securities and exchange commission under the Securities Act of 1933, 17 C.F.R. Section 230.144A; (xiv) a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted by the securities and exchange commission under the Securities Exchange Act of 193, 17 C.F.R. Section 240.15a-6; (xv) any other person, other than an individual, of institutional character with total assets in excess of five million dollars not organized for the specific purpose of evading this chapter; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.

(13) The term "institutional investor" means any of the following, whether acting for itself or for others in a fiduciary capacity, (i) a depository institution or an international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the securities exchange act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of ten million dollars ($10,000,000) or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the laws of this jurisdiction, a depository institution, or an insurance company; (vii) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of ten million dollars ($10,000,000) or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the laws of this jurisdiction, a depository institution or an insurance company; (viii) a trust, if it has total assets in excess of ten million dollars ($10,000,000), its trustee is a depository institution, and its participants are exclusively plans of the types identified in the immediately preceding two clauses, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in Section 501(c)(3) of the Internal Revenue Code (26 U.S.C. Section 501(c)(3)), corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of ten million dollars ($10,000,000); (x) a small business investment company licensed by the Small Business Administration under Section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. Section 681(c)) with total assets in excess of ten million dollars ($10,000,000); (xi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-2(a)(22)) with total assets in excess of ten million dollars ($10,000,000); (xii) a federal covered investment adviser acting for its own account; (xiii) a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), adopted under the Securities Act of 1933 (17 C.F.R. 230.144A); (xiv) a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934 (17 C.F.R. 240.15a-6); (xv) any other person, other than an individual, of institutional

character with total assets in excess of ten million dollars ($10,000,000) not organized for the specific purpose of evading this act; or (xvi) or any other person specified by rule adopted or order issued under this jurisdiction.

(14) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) has no place of business in this jurisdiction, if the transactions effected by the broker-dealer in this jurisdiction are exclusively with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt under this jurisdiction, except when the broker-dealer is acting as a clearing broker-dealer for such other broker-dealers; or (3) or institutions enumerated with respect to this jurisdiction in this Part III

(15) The term "institutional investor" means any of the following whether in acting for itself or for others in a fiduciary capacity: (i) a depository institution or international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the federal Investment Company Act of 1940; (v) an employee pension, profit-sharing or benefit plan if the plan has total assets in excess of $10,000,000 or its investment decisions are made by a named fiduciary, as defined in the federal Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the federal Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the federal Investment Advisers Act of 1940, an investment adviser registered under this chapter, a depository institution or an insurance company; (vi) a plan established and maintained by a state, a political subdivision of a state or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of $10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in the federal Employee Retirement Income Security Act of 1974, that is a broker –dealer registered under the federal Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the federal Investment Advisers Act of 1940, an investment adviser registered under this chapter, a depository institution or an insurance company; (vii) a trust, if it has total assets in excess of $10,000,000, its trustee is a depository institution and its participants are exclusively plans of the types identified in paragraph F or G, regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (viii) an organization described in Section 501(c)(3) of the Internal Revenue Code, 26 United States Code, Section 501(c)(3), a corporation, a Massachusetts trust or similar business trust, a limited liability company or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $10,000,00; (ix) a small business investment company licensed by the United States Small Business Administration under Section 301(c) of the federal Small Business Investment Act of 1958, 15 United States Code, Section 681(c) with total assets in excess of $5,000,000; (x) a private business development company as defined in Section 202(a)(22) of the federal Investment Advisers Act of 1940, 15 United State Code, Section 80b-2(a)(22) with total assets in excess of $5,000,000; (xi) a federal covered investment advisor acting for its own account; (xii) a qualified institutional buyer as defined in 17 Code of Federal Regulations, 230.144A(a)(1), except as defined in 17 Code of Federal Regulations 230.144A(a)(1)(i)(H); (xiii) a major U.S. Institutional investor as defined in 17 Code of Federal Regulations, 240.15a-6(b)(4)(i); (xiv) any other person, other than an individual, of institutional character with total assets in excess of $10,000,000 not organized for the specific purpose of evading this chapter; or (xv) any other person specified by rule adopted or order issued under this chapter. Rules adopted pursuant to this paragraph are routine technical rules as defined in Title 5, chapter 375, subchapter 2-A. A person may be an institutional investor whether acting for itself or others in a fiduciary capacity.

(16) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction or (ii) has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with or through banks, savings institutions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit sharing trusts, or other financial or institutional buyers.

(17) The Maryland Division of Securities has by rule defined institutional investor to include an accredited investor as set forth in Regulation D, 17 CFR §230.501(a)(1)-(3),(7), and (8), and a qualified institutional buyer as set forth in Rule 144A, 55 FR 17933 (1990).

(18) The term "institutional buyer" includes, but is not limited to, (i) a Small Business Investment Company licensed by the U.S. Small Business Administration under the Small Business Investment Act of 1958, as amended; (ii) a private business development company as defined in §202(a)(22) of the Investment Advisers Act of 1940, as amended; (iii) a Business Development Company as defined in §2(a)(48) of the Investment Company Act of 1940, as amended; (iv) an entity with total assets in excess of $5 million and which is either: (a) a company (whether a corporation, a Massachusetts or similar business trust, partnership, limited liability company or limited liability partnership) not formed for the specific purpose of acquiring the securities offered; a substantial part of whose business activities consists of investing, purchasing, selling or trading in securities issued by others and whose investment decisions are made by persons

who are reasonably believed by the seller to have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of investment; or (b) an organization described in Section 501(c)(3) of the Internal Revenue Code; and (v) a Qualified Institutional Buyer as defined in 17 CFR 230.144A(a).

(19) Provided the offeror or seller (i) is registered as a broker-dealer in Michigan or (ii) has no place of business in Michigan and effects transactions in Michigan exclusively with or through banks, saving institutions, trust companies, insurance companies, investment companies as defined in the Investment Company Act of 1940, pension or profit sharing trusts, or other institutional buyers or financial institutions.

(20) The Michigan Director of the Corporation and Securities Bureau, in an interpretive opinion, has defined the term "other financial institution" to include both federal and state savings and loan associations and credit unions.

(21) The terms "financial institution or institutional buyer" include but are not limited to (i) any corporation with a class of equity securities registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended, and, (ii) any person who is an "accredited investor" within the meaning of rule 501(a) of regulation D adopted by the Securities and Exchange Commission.

(22) The Montana State Auditor and Commissioner of Securities has, in an interpretative opinion, added institutional investors qualified under Rule 144A of the Securities Exchange Commission to the list set forth in this Part.

(23) The Nebraska Director of Banking and Finance has, in an interpretative opinion, added certain institutions to those listed: (i) any bank as defined in Section 3(a)(2) of the Securities Act of 1933, whether acting in its individual or fiduciary capacity; (ii) any insurance company as defined in section 2(13) of the Securities Act of 1933; (iii) any business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940; and, (vi) any Small Business Investment Company licensed by the United States Small Business Administration under Sections 301(c) or (d) of the Small Business Investment Company Act of 1958. "Pension or profit-sharing trust" means an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is either a bank, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000.

(24) Provided the offeror or seller (i) is registered as a broker-dealer in this jurisdiction, or (ii) is a broker-dealer registered under the United States Securities Exchange Act of 1934, has no place of business in this jurisdiction and effects transactions in this jurisdiction exclusively with the following: (1) the issuer of the securities involved in the transactions; (2) other broker-dealers licensed or exempt in this jurisdiction and (3) financial and institutional investors.

(25) The term "financial or institutional investor" means: (i) a depository institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of $5,000,000 or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company; and (vi) any other institutional buyer.

(26) Provided the offeror or seller (i) is registered as a broker-dealer in New Jersey, or (ii) effects transactions in New Jersey exclusively with or through registered broker-dealers or with institutions enumerated with respect to New Jersey in this Part.

(27) The term "financial or institutional investor" means (i) a depository institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) an employee pension, profit-sharing or benefit plan: (a) if the plan has total assets in excess of five million dollars ($5,000,000); or (b) if investment decisions are made by a plan fiduciary, as defined in the Employee Retirement Income Security Act of 1974, which is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisors Act of 1940, a depository institution or an insurance company; (vi) a business development company as defined by the Investment Company Act of 1940; (vii) a small business investment company licensed by the United States small business administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; or (viii) any other financial or institutional investor as the director of the New Mexico Securities Division by rule or order designates. By rule, the director of the New Mexico Securities Division has defined "financial or institutional investor" to include, but not be limited to: (1) an entity, other

than a natural person, which is directly engaged in the business of, and derives at least eighty percent of its annual gross income from, investing, purchasing, selling or trading in securities of more than one issuer and not of its own issue, and that has gross assets in excess of five million dollars ($5,000,000) at the end of its latest fiscal year; (2) an entity organized and operated not for private profit as described in Section 501(c)(3) of the Internal Revenue Code with total assets in excess of five million dollars ($5,000,000); (3) a state, a political subdivision of a state or an agency or corporate or other instrumentality of a state or a political subdivision of a state; (4) an employee pension, profit sharing or benefit plan, if the investment decisions are made by one or more plan fiduciaries, as defined in the Employee Retirement Income Security Act of 1974, so long as at least one of such plan fiduciaries is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution, or an insurance company.

(28) In addition, a broker-dealer registered in North Carolina may offer and sell to an entity which has a net worth in excess of $1,000,000 as determined by generally accepted accounting principles.

(29) The term "institutional investor" includes: (1) a corporation or business trust or a wholly-owned subsidiary of the person which has been in existence for 18 months and which has a tangible net worth on a consolidated basis, as reflected in its most recent audited financial statements, of $10 million or more; (2) a college, university, or other public or private institution which has received exempt status under section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. §501(c)(3)) and which has a total endowment or trust funds, including annuity and life income funds, of $5 million or more according to its most recent audited financial statements; provided that the aggregate dollar amount of securities being sold to the person under the exemption contained in section 203(c) of the Pennsylvania Securities Act of 1972 (the "Act") (70 P.S. §1-203(c)) and this title may not exceed 5.0% of the endowment or trust funds; (3) a wholly-owned subsidiary of a bank as defined in section 102(d) of the Act (70 P.S. §1-102(d) and §102.041 (relating to banking institution; savings and loan institution); (4) a person, except an individual or an entity whose securityholders consist entirely of one individual or group of individuals who are related, which is organized primarily for the purpose of purchasing, in non-public offerings, securities of corporations or issuers engaged in research and development activities in conjunction with a corporation and which complies with one of the following: (i) has purchased $5 million or more of the securities excluding both of the following: (A) a purchase of securities of a corporation in which the person directly or beneficially owns more than 50% of the corporation's voting securities, but securities purchased under a leveraged buy-out financing in which the person does not intend to provide direct management to the issuer, shall not be excluded, or (B) any dollar amount of a purchase of securities of a corporation which investment represents more than 20% of the person's net worth; (ii) is capitalized at $2,500,000 or more and is controlled by an individual controlling a person which meets the criteria contained in subparagraph (i); (iii) is capitalized at $10 million or more and has purchased $500,000 or more of the securities, excluding a purchase of securities of a corporation in which the person directly or beneficially owns more than 50% of the corporation's voting securities; (iv) is capitalized at $250,000 or more and is a side-by-side fund as defined in subsection (b)(4) of the Pennsylvania Blue Sky Regulations; (5) a Small Business Investment Company as that term is defined in section 103 of the Small Business Investment Act of 1958, (15 U.S.C. § 662) which either: (i) has a total capital of $1 million or more; or (ii) is controlled by institutional investors as defined in section 102(k) of the Act (70 P.S. §1-102(k)) or section 102.111 of the Pennsylvania Blue Sky Regulations; (6) a Seed Capital Fund, as defined in section 2 and authorized in section 6 of the Small Business Incubators Act (73 P.S. §§395.2 and 395.6); (7) a Business Development Credit Corporation, as authorized by the Business Development Credit Corporation Law (15 P.S. §§2701-2716); (8) a person whose security holders consist solely of institutional investors or broker-dealers; (9) a person as to which the issuer reasonably believed qualified as an institutional investor under this section at the time of the offer or sale of the securities on the basis of written representations made to the issuer by the purchaser; and (10) a qualified institutional buyer as that term is defined in 17 CFR 230.144A (relating to private resales of securities to institutions), or any successor rule thereto.

(30) Provided the offeror or seller (i) is registered as a broker-dealer in Rhode Island or (ii) is a broker-dealer who is registered or not required to be registered under the Securities Exchange Act of 1934, has no place of business in Rhode Island and effects transactions in Rhode Island exclusively with or through other broker-dealers or with institutions enumerated with respect to Rhode Island in this Part.

(31) Provided the offeror or seller (i) is registered or licensed as a broker-dealer in Tennessee, or (ii) has no place of business in Tennessee and is registered as a broker-dealer with the Securities and Exchange Commission or the National Association of Securities Dealers, Inc. and effects transactions in Tennessee exclusively with or through registered or licensed broker-dealers or with institutions enumerated with respect to Tennessee in this Part.

(32) In addition, the Texas State Securities Board exempts from the securities registration requirements of the Securities Act the offer and sale of any securities to any of the following purchasers: (1)(i) any bank, as defined in Section 3(a)(2) of the Securities Act of 1933, as amended (the "1933 Act") or any savings and loan association or other institution as defined in Section 3(a) (5)(A) of the 1933 Act, whether acting in its individual or fiduciary capacity; any insurance company as defined in Section 2(13) of the 1933 Act; any investment company registered under the Investment Company Act of 1940; or a business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940; any Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions for the benefit of its employees, if such plan has total assets in excess of $5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000, or, if a self-directed plan, with investment decisions made solely by persons that are accredited institutional investors; (ii) any private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940; (iii) any organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000; (iv) any director, executive officer, or general partner of the issuer of the securities being offered and sold, or any director, executive officer, or general partner of a general partner of that issuer; (v) any trust with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment within the meaning of Rule 506(b)(ii) promulgated under the 1933 Act; or (vi) any entity in which all of the equity owners are within categories (i)-(v) above; (2) any "qualified institutional buyer" (as that term is defined in Rule 144A(a)(1) of the 1933 Act as made effective in SEC Release 33-6862, and amended in Release Number 33-6963); and (3) a corporation, partnership, trust, estate or other entity (excluding individuals) having net worth of not less than $5,000,000, or a wholly owned subsidiary of such entity, provided the entity was not formed for the purpose of acquiring the specific securities. For purposes of determining a purchaser's total assets or net worth, the issuer and the seller may rely upon the entity's most recent annual balance sheet or other financial statement which shall have been audited by an independent accountant or which shall have been verified by a principal of the purchaser.

(33) The term "institutional buyer" includes a corporation, business trust, or partnership or wholly owned subsidiary of such an entity, which has been operating for at least 12 months and which has a net worth on a consolidated basis of at least $10 million as determined by the entity's most recent audited financial statements, such statements to be dated within 16 months of the transaction made in reliance upon this exemption; any entity which has been granted exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986 and which has a total endowment or trust funds of $5 million or more according to its most recent audited financial statements, such statements to be dated within 16 months of the transaction made in reliance upon this exemption; or any wholly owned subsidiary of a bank, savings institution, insurance company, or investment company as defined in the Investment Company Act of 1940. Sales of the securities to such persons may be made by persons registered as broker-dealers in Washington.

(34) The Commissioner of Securities has, by rule, defined the term "financial institution" or "institutional investor" to include: (a) an endowment or trust fund of a charitable organization specified in Section 170(b)(1)(A) of the Internal Revenue Code; (b) an issuer which has any class of securities registered under Section 12 of the Securities Exchange Act of 1934, and any wholly owned subsidiary thereof; (c) a venture capital company which either (i) operates as a small business investment company licensed under the Small Business Investment Act of 1958, as amended 15 U.S.C. sec. 631, or (ii) is any other corporation, partnership, limited liability company or association whose net assets exceed $1,000,000, and whose principal purpose as stated in its articles, by-laws or other organizational instruments is investing in securities or whose primary business is investing in developmental stage companies or eligible small business companies as defined in the regulations of the small business administration at 13 CFR 108.2; (d) any "qualified institutional buyer" as defined and listed in sec. 230.144A under the Securities Act of 1933 as amended and inclusive to October 22, 1992, whether acting for their own account or the accounts of other qualified institutional buyers that in the aggregate owns and invests on a discretionary basis at least $100 million in securities of issuers that are not affiliated with the qualified institutional buyer; (e) any entity, all of the equity owners of which are persons designated in Section 551.23(8) of the Wisconsin Statutes, as amended; or (f) any accredited investor as defined under Regulation D of the securities act of 1933.

(35) Provided the offeror or seller (i) is registered as a broker-dealer in Wisconsin, or (ii) effects transactions in Wisconsin exclusively with or through registered broker-dealers or with institutions enumerated with respect to Wisconsin in this Part.

NIXON PEABODY LLP
ATTORNEYS AT LAW

Two Embarcadero Center
San Francisco, CA 94111-3996
(415) 984-8200
Fax (415) 984-8300

$209,350,000
Roseville Natural Gas Financing Authority
Gas Revenue Bonds
Series 2007

FINAL BLUE SKY SURVEY

January 24, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated
101 California Street
Suite 1225
San Francisco, CA 94111

Ladies and Gentlemen:

This memorandum confirms our Preliminary Blue Sky Survey (the "Preliminary Blue Sky Survey"), dated January 18, 2007, for the above-captioned $209,350,000 Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007 (the "Bonds").

Very truly yours,

NIXON PEABODY LLP

10111257.1

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

Board of Directors
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, California 95678

Re: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Roseville Natural Gas Financing Authority (the "Authority") in connection with the issuance of $209,350,000 aggregate principal amount of its Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Agreement for the Purchase and Sale of Natural Gas (the "Prepaid Gas Agreement"), dated as of January 24, 2007 between the Authority and Merrill Lynch Commodities, Inc., the Natural Gas Supply Agreement (the "Supply Agreement"), dated as of February 1, 2007 between the Authority and the City of Roseville (the "Municipality"), the Tax Agreement, dated the date hereof, relating to the Bonds (the "Tax Agreement"), certificates of the Authority, the Municipality, the Trustee and others, opinions of counsel to the Authority, the Municipality, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Prepaid Gas Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court 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 or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California . We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy of the description contained therein of, or the remedies available to enforce liens on, any of such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Trust Estate, which pledge is

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subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein.

3. The Bonds are not payable from, or secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Revenues and the other funds pledged therefor pursuant to the Indenture, which pledge is subject to the application of the Revenues and such other funds for the purposes and on the terms and conditions set forth in the Indenture. Neither the faith and credit nor the taxing power of the State of California, the Authority, the Municipality or any other public agency is pledged to the payment of the principal or Redemption Price of, or the interest on, the Bonds and the issuance of the Bonds shall not directly, indirectly or contingently obligate the Authority, the State of California or any political subdivision thereof, including the Municipality, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of, or interest on, the Bonds does not constitute a debt, liability or obligation of the State of California or any public agency, including the Municipality, other than the special obligation of the Authority as provided in the Indenture.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Purchaser
101 California Street
San Francisco, CA 94111

Re: Roseville Natural Gas Financing Authority
Gas Revenue Bonds, Series 2007
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Purchaser, pursuant to Section 6(c)(iii) of the Bond Purchase Contract, dated January 24, 2006 (the "Bond Purchase Contract"), between you and the Roseville Natural Gas Financing Authority (the "Authority"), providing for the purchase of the Authority's $209,350,000 Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture or, if not defined in the Indenture, the Bond Purchase Contract.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the Authority. You may rely on such opinion as though the same were addressed to you.

In connection with our role as bond counsel, we have reviewed the Bond Purchase Contract, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement and the documents, certificates, opinions and matters mentioned in the second paragraph of our Bond Opinion, and such other documents, opinions and matters to the extent we deemed necessary to express the opinions set forth in the numbered paragraphs below.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court 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 or any other matters come to our attention after the date hereof. We have not reviewed any electronic version of the Official Statement, and assume that such version is identical in all respects to the printed version. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, 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 third paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Tax Agreement, the Bond Purchase Contract, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any real or personal property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statements or other offering material relating to the Bonds and express no opinion relating thereto except as expressly set forth below.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended. No opinion is expressed with respect to the Securities Act of 1933, as amended, as to the Prepaid Gas Agreement, the Guarantee, the Funding Agreement, the Funding Guarantee, the Customer Insurance Policy or the Forward Purchase Agreement.

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2. The Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

3. The statements contained in the Official Statement under the captions "THE TERMS OF THE BONDS," "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS," "THE GAS SUPPLY ACQUISITION," and "TAX MATTERS," excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement or our opinion as to certain tax matters relating to the Bonds, are accurate in all material respects; provided, however, that no opinion is expressed with respect to any statements relating to The Depository Trust Company ("DTC"), DTC's operations or book-entry system, the Swap Counterparty or the Seller Swap Agreement.

This letter is furnished by us as bond counsel. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. Our engagement with respect to the Bonds has concluded with their issuance. We disclaim any obligation to update this letter. This letter is delivered to you as the Purchaser of the Bonds, is solely for your benefit as such Purchaser and is not to be used, circulated, quoted or otherwise referred to or relied upon by you for any other purpose. This letter is not intended to, and may not, be relied upon by owners of the Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated
101 California Street
San Francisco, California 94111

Re: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007

Ladies and Gentlemen:

In connection with the delivery of the above-referenced bonds (the "Bonds") we have delivered our final legal opinion concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the issuer of the Bonds, as required by Section 6(c)(ii) of the Bond Purchase Contract, dated January 24, 2007 and Section 2.03(iii) of the Trust Indenture, dated as of February 1, 2007.

You may rely on said opinion as though the same were addressed to you. No attorney-client relationship has existed or exists between the addressees of this letter and our firm in connection with the Bonds or by virtue of this letter.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

The Bank of New York Trust Company, National Association
550 Kearny Street, Suite 600
San Francisco, California 94108

Re: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007

Ladies and Gentlemen:

In connection with the delivery of the above-referenced bonds (the "Bonds") we have delivered our final legal opinion concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the issuer of the Bonds, as required by Section 6(c)(ii) of the Bond Purchase Contract, dated January 24, 2007 and Section 2.03(iii) of the Trust Indenture, dated as of February 1, 2007.

You may rely on said opinion as though the same were addressed to you, as trustee, but solely for the benefit of, and as if you were one of, the holders of the Bonds. No attorney-client relationship has existed or exists between the addressees of this letter and our firm in connection with the Bonds or by virtue of this letter.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

Merrill Lynch Commodities, Inc.
20 East Greenway Plaza
Houston, TX 77046

Re: Agreement for Purchase and Sale of Natural Gas

Ladies and Gentlemen:

We have acted as special counsel to the Roseville Natural Gas Financing Authority (the "Authority") in connection with the Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "Prepaid Gas Agreement"), between Merrill Lynch Commodities, Inc. and the Authority. This opinion is being delivered pursuant to Section 22.2.6 of the Prepaid Gas Agreement. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to the Prepaid Gas Agreement.

In such connection we have reviewed the Prepaid Gas Agreement, the Funding Agreement, Resolution No. 1-07 of the Authority's Board of Directors, certificates of the Authority, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws and court decisions and covers 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 or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed, without undertaking to verify, compliance with all covenants and agreements contained in the Prepaid Gas Agreement and the Funding Agreement. In addition, we call attention to the fact that the rights and obligations under the Prepaid Gas Agreement and the Funding Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws

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relating to or affecting creditors' rights, to the application of equitable principles (including without limitation concepts of mutuality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies in the State of California. We express no opinion with respect to any indemnification, contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum or waiver provisions contained in the Prepaid Gas Agreement, nor do we express any opinion with respect to the state or quality of title to or interest in any property described in or as subject to the lien of the Prepaid Gas Agreement and the Funding Agreement or the accuracy or sufficiency of the description therein of, or the remedies available to enforce liens on, any such property.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Prepaid Gas Agreement and the Funding Agreement are the valid and binding obligations of the Authority.

This opinion is furnished by us as special counsel to the Authority in connection with the Prepaid Gas Agreement and the Funding Agreement and is solely for the benefit of the addressee in such connection and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. No attorney-client relationship has existed or exists between our firm and the addressee (or any related entity) in connection with the Prepaid Gas Agreement and the Funding Agreement or by virtue of this opinion.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

JPMorgan Chase Bank, National Association
270 Park Avenue
New York, New York 90017

Re: ISDA Master Agreement and related Schedule, Credit Support Annex and Confirmation, each dated January 24, 2007

Ladies and Gentlemen:

We have acted as bond counsel to the Roseville Natural Gas Financing Authority (the "Authority") in connection with the ISDA Master Agreement, dated as of January 24, 2007 ("Master Agreement"), between JPMorgan Chase Bank, National Association (the "Provider") and the Authority, as supplemented by the Schedule, dated as of January 24, 2007 (the "Schedule"), the Credit Support Annex, dated as of January 24, 2007 (the "Credit Support Annex"), and the confirmation of the transaction entered into on January 24, 2007 between the Provider and the Authority (the "Confirmation"). The Master Agreement, the Schedule, the Credit Support Annex and the Confirmation (but not any other documents incorporated or referred to in any thereof) are collectively referred to herein as the "Agreement".

We understand that the Agreement was entered into by the Authority pursuant to Resolution No. 1-07 adopted on January 17, 2007 (the "Resolution"), in connection with issuance of Gas Revenue Bonds, Series 2007 (the "Bonds"). It is further our understanding that the Agreement was entered into by the Authority in order to, and based on a determination by its governing body that the Agreement is designed to, reduce the amount or duration of rate or spread risk when used in combination with the Bonds, after due consideration for the creditworthiness of the Provider including its unsecured, long-term credit rating from three nationally recognized rating agencies.

We have reviewed the Agreement, the Resolution, an opinion of Counsel to the Authority and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, including Section 5922 of the California Government Code, and court 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 or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion, referred to in the third paragraph hereof. Furthermore, we have assumed, without undertaking to verify, compliance with all covenants and agreements contained in the Agreement, the Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, National Association, and other relevant documents. In addition, we call attention to the fact that the rights and obligations under the Agreement, the Indenture and other relevant documents and their enforceability may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles (including without limitation concepts of mutuality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies in the State of California. We express no opinion with respect to any indemnification, contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein, nor do we express any opinion with respect to the state or quality of title to or interest in any property described in or as subject to the lien of the Agreement or any incorporated or related document or the accuracy or sufficiency of the description therein of, or the remedies available to enforce liens on, any such property.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Agreement is the valid and binding obligation of the Authority.

This opinion is furnished by us as bond counsel to the Authority and applies only to the swap transaction established by the Confirmation and not to any other swap or other transactions whether entered into pursuant to the Master Agreement and Schedule and Credit Support Annex or otherwise. No attorney-client relationship has existed or exists between our firm and the Provider (or any related entity) in connection with the Agreement or by virtue of this

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opinion. This opinion is delivered to the Provider solely for its benefit and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person.

Very truly yours,

Orrick Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

Financial Security Assurance Inc.
31 West 52nd Street
New York, New York 10019

Re: Natural Gas Supply Agreement and Reimbursement Agreement

Ladies and Gentlemen:

We have acted as bond counsel to the Roseville Natural Gas Financing Authority (the "Authority") in connection with the issuance of $209,350,000 aggregate principal amount of its Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee").

We have also acted as special counsel to the City of Roseville (the "City") in connection with the Natural Gas Supply Agreement, dated as of February 1, 2007 (the "Supply Agreement"), between the City and the Roseville Natural Gas Financing Authority (the "Authority") and the Reimbursement Agreement, dated as of February 1, 2007 (the "Reimbursement Agreement"), between the City and Financial Security Assurance Inc. The Supply Agreement and the Reimbursement Agreement are collectively referred to herein as the "Agreements".

In such connection we have reviewed the Indenture, the Agreements, the Resolution No. 1-07 of the Authority's Board of Directors, Resolution No. 06-647 of the City Council of the City, certificates of the Authority and the City, an opinion of Counsel to the Authority, an opinion of the City Attorney of the City, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws and court decisions and covers 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 or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority and the City. We have assumed, without undertaking to verify, 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 second paragraph hereof. Furthermore, we have assumed, without undertaking to verify, compliance with all covenants and agreements contained in the Agreements. In addition, we call attention to the fact that the rights and obligations under the Indenture and the Agreements and their enforceability may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles (including without limitation concepts of mutuality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies in the State of California. We express no opinion with respect to any indemnification, contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum or waiver provisions contained in the Agreements, nor do we express any opinion with respect to the state or quality of title to or interest in any property described in or as subject to the lien of the Indenture or thee Agreements or the accuracy or sufficiency of the description therein of, or the remedies available to enforce liens on, any such property.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that:

1. The Supply Agreement is the valid and binding obligation of the City and the Authority.

2. The Reimbursement Agreement is the valid and binding obligation of the City.

3. The Indenture is the valid and binding obligation of the Authority.

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This opinion is furnished by us as special counsel to the City in connection with the Agreements and is solely for the benefit of the addressee in such connection and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. No attorney-client relationship has existed or exists between our firm and the addressee (or any related entity) in connection with the Agreements or by virtue of this opinion.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP

ORRICK, HERRINGTON & SUTCLIFFE LLP

CITY OF ROSEVILLE CALIFORNIA

City Attorney
311 Vernon Street
Roseville, California 95678-2649

February 6, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Purchaser
101 California Street
San Francisco, CA 94111

Ladies and Gentlemen:

I am the City Attorney for the City of Roseville, California (the "Municipality") and in such capacity also serve as counsel to the Roseville Natural Gas Financing Authority (the "Authority"). This letter is being delivered pursuant to Section 6(c)(iv) of the Bond Purchase Contract (the "Bond Purchase Contract"), dated January 24, 2007, between the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the Purchaser of the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Purchase Contract.

In such connection, I have reviewed the Bond Purchase Contract, the Indenture, the Prepaid Gas Agreement and the Supply Agreement (collectively referred to as the "Authority Documents"), the Official Statement, the Authority Resolution, the Joint Exercise of Powers Agreement, dated as of November 1, 2006, by and the between the Municipality and the Redevelopment Agency of the City of Roseville, and such other resolutions, certificates, documents, opinions and matters to the extent I deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws and court 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. I have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to my attention after the date hereof, and I disclaim any obligation to update this letter. I have assumed the genuineness of all documents and signatures presented to me (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority and Municipality. I have assumed, without undertaking to verify, 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 second paragraph hereof. Furthermore, I have assumed, without undertaking to verify, compliance with all covenants and agreements contained in such documents. In addition, I call attention to the fact that the rights and obligations under the Authority Documents may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles (including without limitation concepts of mutuality,

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reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate cases, to the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America. I express no opinion with respect to any indemnification, contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Certain of the Authority Documents provide that they are to be governed by and in accordance with the laws of the State of New York. The opinions made herein with respect to such documents are based on the assumption that the applicable laws of the State of New York and the State of California are the same. However, I express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, I am of the opinion that:

1. The Authority is duly organized and validly existing under the Constitution and laws of the State.

2. The Authority Resolution was duly adopted at a meeting of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed.

3. No material litigation is pending, with service of process having been accomplished, or to my knowledge threatened, concerning the validity of the Bonds, the corporate existence of the Authority, or the title of the officers of the Authority to their respective offices.

4. The execution and delivery of the Authority Documents and the Official Statement, the adoption of the Authority Resolution, the issuance of the Bonds and compliance by the Authority with the provisions of the foregoing, under the circumstance contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party, or by which it is bound, as to which I am aware after reasonable investigation or by any existing law, regulation, court order or consent decree to which the Authority is subject.

5. The Official Statement has been duly authorized, executed and delivered and the Authority Documents and the Bonds each have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by any parties other than the Authority, constitute legal, valid and binding agreements of the Authority enforceable in accordance with the respective terms.

6. No authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Authority is required for the valid authorization, execution, delivery and performance by the Authority of the

Authority Documents, the valid issuance of the Bonds or for the adoption of the Authority Resolution which has not been obtained.

This letter is solely for the information of, and assistance to, the addressee named above in connection with the execution and delivery of the Bonds and is not to be used, circulated, quoted or otherwise referred to in connection with any other transaction or by any other person except that reference may be made to this letter in any list of closing documents pertaining to the sale of the Bonds.

Respectfully submitted,

Robert R. Schmidt
Senior Deputy City Attorney, for

BRITA MCNAY

CITY OF ROSEVILLE CALIFORNIA

City Attorney
311 Vernon Street
Roseville, California 95678-2649

February 6, 2007

Board of Directors
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, California 95678

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Purchaser
101 California Street
San Francisco, CA 94111

Ladies and Gentlemen:

I am the City Attorney for the City of Roseville, California (the "Municipality"). This letter is being delivered pursuant to Section 6(c)(v) of the Bond Purchase Contract (the "Bond Purchase Contract"), dated January 24, 2007, between the Roseville Natural Gas Financing Authority (the "Authority") and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the Purchaser of the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Purchase Contract.

In such connection, I have reviewed the Supply Agreement, the Municipality Resolution, the Roseville City Charter, and such other resolutions, certificates, documents, opinions and matters to the extent I deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws and court 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. I have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to my attention after the date hereof, and I disclaim any obligation to update this letter. I have assumed the genuineness of all documents and signatures presented to me (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority and Municipality. I have assumed, without undertaking to verify, 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 second paragraph hereof. Furthermore, I have assumed, without undertaking to verify, compliance with all covenants and agreements contained in such documents. In addition, I call attention to the fact that the rights and obligations under the Supply Agreement may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws relating to or affecting creditors' rights, to

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the application of equitable principles (including without limitation concepts of mutuality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate cases, to the limitations on legal remedies in the State of California, to the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America. I express no opinion with respect to any indemnification, contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum, or waiver provisions contained in the Supply Agreement.

The Supply Agreement provides that it is to be governed by and in accordance with the laws of the State of New York. The opinions given herein with respect to such document are based on the assumption that the applicable laws of the State of New York and the State of California are the same. However, I express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, I am of the opinion that:

1. The Supply Agreement has been duly authorized, executed and delivered by the Municipality and constitutes the valid, legal and binding agreement of the Municipality enforceable in accordance with its terms.

2. The Municipality is a charter city duly organized and validly existing under the laws of the State.

3. The Municipality Resolution has been duly adopted, and is in full force and effect and has not been modified, amended or rescinded.

This letter is solely for the information of, and assistance to, the addressees named above in connection with the execution and delivery of the Supply Agreement and is not to be used, circulated, quoted or otherwise referred to in connection with any other transaction or by any other person except that reference may be made to this letter in any list of closing documents pertaining to the sale of the Bonds.

Respectfully submitted,

Robert R Schmitt
Senior Deputy City Attorney, for

BRITA MCNAY

CITY OF ROSEVILLE CALIFORNIA

City Attorney
311 Vernon Street
Roseville, California 95678-2649

February 6, 2007

The Bank of New York, National Association, as trustee
550 Kearny Street, Suite 600
San Francisco, California 94108

Ladies and Gentlemen:

I am the City Attorney for the City of Roseville, California (the "Municipality") and in such capacity also serve as counsel to the Roseville Natural Gas Financing Authority (the "Authority"). This letter is being delivered pursuant to Section 2.03(ii) and Section 2.03(viii) of the Trust Indenture, dated as of February 1, 2007 (the "Indenture") between the Authority and The Bank of New York, National Association, as trustee. Capitalized terms used herein and not otherwise defined herein shall have the meanings given such terms in the Indenture.

In such connection I have reviewed the Indenture, the Supply Agreement, the Prepaid Gas Agreement, the Commodity Swap, (such documents being collectively referred to as the "Authority Documents"), the Joint Exercise of Powers Agreement, dated as of November 1, 2006, by and between the Municipality and the Redevelopment Agency of the City of Roseville, and such other documents, opinions and matters to the extent I deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws and court 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. I have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to my attention after the date hereof, and I disclaim any obligation to update this letter. I have assumed the genuineness of all documents and signatures presented to me (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority and Municipality. I have assumed, without undertaking to verify, 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 second paragraph hereof. Furthermore, I have assumed, without undertaking to verify, compliance with all covenants and agreements contained in the Authority Documents. In addition, I call attention to the fact that the rights and obligations under the Authority Documents and their enforceability may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles (including without limitation

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concepts of mutuality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate cases, to the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America. I express no opinion with respect to any indemnification, contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum or waiver provisions contained in the Authority Documents.

The Prepaid Gas Agreement, the Supply Agreement and the Commodity Swap each provide that it is to be governed by and in accordance with the laws of the State of New York. The opinions made herein with respect to such documents are based on the assumption that the applicable laws of the State of New York and the State of California are the same. However, I express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, I am of the opinion that:

1. The Authority has the right and power to authorize and enter into the Authority Documents.

2. The Authority Documents have been duly and lawfully authorized, executed and delivered by the Authority, are in full force and effect and (assuming due authorization, execution and delivery by and validity against any other parties thereto other than the Municipality) are valid and binding obligations of the Authority.

3. The Supply Agreement has been duly executed and delivered by, and is a binding obligation of, the Municipality.

This letter is solely for the information of, and assistance to, the addressee named above in connection with the execution and delivery of the Bonds and is not to be used, circulated, quoted or otherwise referred to in connection with any other transaction or by any other person except that reference may be made to this letter in any list of closing documents pertaining to the sale of the Bonds.

Respectfully submitted,

Robert P. Schmitt
Senior Deputy City Attorney, for

BRITA MCNAY

CITY OF ROSEVILLE CALIFORNIA

City Attorney
311 Vernon Street
Roseville, California 95678-2649

February 6, 2007

Merrill Lynch Commodities, Inc.
20 East Greenway Plaza
Houston, Texas 77046

Ladies and Gentlemen:

I am the City Attorney for the City of Roseville, California (the "Municipality") and in such capacity also serve as counsel to the Roseville Natural Gas Financing Authority (the "Authority"). This letter is being delivered pursuant to Section 22.2.6 of the Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "Prepaid Gas Agreement"), between the Authority and Merrill Lynch Commodities, Inc. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to the Prepaid Gas Agreement.

In such connection I have reviewed the Prepaid Gas Agreement, the Joint Exercise of Powers Agreement, dated as of November 1, 2006, by and between the Municipality and the Redevelopment Agency of the City of Roseville, the Resolution No. 1-07 of the Authority's Board of Directors, and such other documents, opinions and matters to the extent I deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws and court 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. I have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to my attention after the date hereof, and I disclaim any obligation to update this letter. I have assumed the genuineness of all documents and signatures presented to me (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority. I have assumed, without undertaking to verify, 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 second paragraph hereof. Furthermore, I have assumed, without undertaking to verify, compliance with all covenants and agreements contained in the Prepaid Gas Agreement. In addition, I call attention to the fact that the rights and obligations under the Prepaid Gas Agreement and its enforceability may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles (including without limitation concepts of mutuality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate

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cases, to the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America. I express no opinion with respect to any indemnification, contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum or waiver provisions contained in the Prepaid Gas Agreement.

The Prepaid Gas Agreement provides that it is to be governed by and in accordance with the laws of the State of New York. The opinions made herein with respect to such document are based on the assumption that the applicable laws of the State of New York and the State of California are the same. However, I express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, I am of the opinion that:

1. The Authority is a joint exercise of power agency and public entity of the State of California.

2. The execution, delivery and performance of the Prepaid Gas Agreement and the transactions contemplated therein have been duly and validly authorized by all requisite action on the part of the Authority.

3. The Prepaid Gas Agreement has been properly and duly executed and delivered on behalf of the Authority and constitutes the valid and binding obligation of the Authority.

4. The Authority's obligations under the Prepaid Gas Agreement shall not be limited, reduced or excused by any defenses which are not available to non-governmental corporations, including without limitation the defense of sovereign immunity.

This letter is solely for the information of, and assistance to, the addressee named above in connection with the execution and delivery of the Prepaid Gas Agreement and is not to be used, circulated, quoted or otherwise referred to in connection with any other transaction or by any other person except that reference may be made to this letter in any list of closing documents pertaining to the sale of the Bonds.

Respectfully submitted,

Robert R Schmitt
Senior Deputy City Attorney, for
BRITA MCNAY

CITY OF ROSEVILLE CALIFORNIA

City Attorney
311 Vernon Street
Roseville, California 95678-2649

February 6, 2007

Financial Security Assurance Inc.
31 West 52nd Street
New York, New York 10019

Ladies and Gentlemen:

I am the City Attorney for the City of Roseville, California (the "Municipality") and in such capacity also serve as counsel to the Roseville Natural Gas Financing Authority (the "Authority"). This letter is being delivered pursuant to Exhibit A of the Customer Insurance Policy Commitment (the "Insurance Commitment"), dated January 26, 2007, to the Authority. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to the Insurance Commitment, including the Exhibits thereto.

In such connection I have reviewed the Indenture, the Supply Agreement, the Prepaid Gas Agreement, the Reimbursement Agreement and such other documents, opinions and matters to the extent I deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws and court 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. I have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to my attention after the date hereof, and I disclaim any obligation to update this letter. I have assumed the genuineness of all documents and signatures presented to me (whether as originals or copies) and the due and legal execution and delivery thereof by all parties and validity against any parties other than the Authority and Municipality. I have assumed, without undertaking to verify, 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 second paragraph hereof. Furthermore, I have assumed, without undertaking to verify, compliance with all covenants and agreements contained in the Indenture, the Supply Agreement, the Prepaid Gas Agreement and the Reimbursement Agreement. In addition, I call attention to the fact that the rights and obligations under such documents and their enforceability may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, arrangement, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles (including without limitation concepts of mutuality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief), to the exercise of judicial discretion in appropriate cases, to the valid exercise of the sovereign police powers of the State and of the constitutional power of the United States of America. I express no opinion with respect to any indemnification,

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contribution, forfeiture, set off, late payment charge, penalty, choice of law, choice of forum or waiver provisions contained in the Indenture, the Supply Agreement, the Prepaid Gas Agreement or the Reimbursement Agreement.

The Supply Agreement, the Reimbursement Agreement and the Prepaid Gas Agreement each provide that it is to be governed by and in accordance with the laws of the State of New York. The opinions made herein with respect to such documents are based on the assumption that the applicable laws of the State of New York and the State of California are the same. However, I express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, I am of the opinion that:

1. Each of the Supply Agreement and the Reimbursement Agreement has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Municipality, enforceable in accordance with its terms.

2. The payment obligations of the Municipality under the Supply Agreement constitute an operating expense and are payable from the electric generation revenues of the Municipality prior to debt service on the Municipality's debt obligations that are payable from such electric generation revenues. The Municipality is obligated to impose rates, fees and charges at such levels as to produce electric generation revenues sufficient in amount to pay as they come due the obligations of the Municipality under the Supply Agreement, and such obligation is enforceable by the Authority or its assignee.

3. There is no litigation or other proceeding pending or, to the best of counsel's knowledge, threatened in any court, agency or other administrative body (either State or Federal) which could have a material adverse effect on (a) the financial condition of the Municipality, (b) the ability of the Municipality to performs its obligations under the Supply Agreement, (c) the transactions contemplated by the Supply Agreement or the Indenture, or (d) the ability of the Municipality to maintain and operate its electric supply system.

4. The Supply Agreement has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Authority, enforceable in accordance with its terms.

5. The Indenture has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Authority, enforceable in accordance with its terms.

6. The Prepaid Gas Agreement has been duly authorized, executed and delivered and constitutes the legally valid and binding agreement of the Authority, enforceable in accordance with its terms.

7. There is no litigation or other proceeding pending, or to the best of my knowledge threatened, in any court, agency or other administrative body (either State or

Federal) which could have a material adverse effect on (a) the financial condition of the Authority, (b) the ability of the Authority to performs its obligations under the Supply Agreement, the Prepaid Gas Agreement or the Indenture, (c) the transactions contemplated by the Supply Agreement or the Indenture, or (d) the ability of the Authority to maintain and operate the Gas Supply (as defined in the Indenture).

This letter is solely for the information of, and assistance to, the addressee named above in connection with the execution and delivery of the Bonds and is not to be used, circulated, quoted or otherwise referred to in connection with any other transaction or by any other person except that reference may be made to this letter in any list of closing documents pertaining to the sale of the Bonds.

Respectfully submitted,

Robert R Schmitt
Senior Deputy City Attorney, for

BRITA MCNAY

ORRICK

ORRICK, HERRINGTON & SUTCLIFFE LLP
777 SOUTH FIGUEROA STREET
SUITE 3200
LOS ANGELES, CA 90017-5855
tel 213-629-2020
fax 213-612-2499
WWW.ORRICK.COM

February 6, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Purchaser
101 California Street
San Francisco, CA 94111

Re: Roseville Natural Gas Financing Authority
Gas Revenue Bonds, Series 2007
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Purchaser, pursuant to Section 6(c)(iii) of the Bond Purchase Contract, dated January 24, 2006 (the "Bond Purchase Contract"), between you and the Roseville Natural Gas Financing Authority (the "Authority"), providing for the purchase of the Authority's $209,350,000 Gas Revenue Bonds, Series 2007 (the "Bonds"). The Bonds have been issued pursuant to the provisions of Article 4 of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 the California Government Code, and a Trust Indenture (the "Indenture"), dated as of February 1, 2007, between the Authority and The Bank of New York Trust Company, N.A., as trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture or, if not defined in the Indenture, the Bond Purchase Contract.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the Authority. You may rely on such opinion as though the same were addressed to you.

In connection with our role as bond counsel, we have reviewed the Bond Purchase Contract, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement and the documents, certificates, opinions and matters mentioned in the second paragraph of our Bond Opinion, and such other documents, opinions and matters to the extent we deemed necessary to express the opinions set forth in the numbered paragraphs below.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court 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 or any other matters come to our attention after the date hereof. We have not reviewed any electronic version of the Official Statement, and assume that such version is identical in all respects to the printed version. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, 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 third paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Tax Agreement, the Bond Purchase Contract, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any real or personal property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statements or other offering material relating to the Bonds and express no opinion relating thereto except as expressly set forth below.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended. No opinion is expressed with respect to the Securities Act of 1933, as amended, as to the Prepaid Gas Agreement, the Guarantee, the Funding Agreement, the Funding Guarantee, the Customer Insurance Policy or the Forward Purchase Agreement.

ORRICK

2. The Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

3. The statements contained in the Official Statement under the captions "THE TERMS OF THE BONDS," "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS," "THE GAS SUPPLY ACQUISITION," and "TAX MATTERS," excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture, the Prepaid Gas Agreement, the Supply Agreement, the Commodity Swap, the Funding Agreement or our opinion as to certain tax matters relating to the Bonds, are accurate in all material respects; provided, however, that no opinion is expressed with respect to any statements relating to The Depository Trust Company ("DTC"), DTC's operations or book-entry system, the Swap Counterparty or the Seller Swap Agreement.

This letter is furnished by us as bond counsel. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. Our engagement with respect to the Bonds has concluded with their issuance. We disclaim any obligation to update this letter. This letter is delivered to you as the Purchaser of the Bonds, is solely for your benefit as such Purchaser and is not to be used, circulated, quoted or otherwise referred to or relied upon by you for any other purpose. This letter is not intended to, and may not, be relied upon by owners of the Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

NIXON PEABODY LLP
ATTORNEYS AT LAW

Two Embarcadero Center
San Francisco, California 94111-3996
Phone: (415) 984-8200
Fax: (415) 984-8300

February 6, 2007

Merrill Lynch, Pierce, Fenner & Smith Incorporated
101 California Street
San Francisco, CA 94111

Re: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007

Ladies and Gentlemen:

We have acted as your counsel in connection with the issuance by Roseville Natural Gas Financing Authority (the "Authority") of its Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007, in the aggregate principal amount of $209,350,000 (the "Bonds"). The Bonds were purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser") pursuant to a bond purchase contract dated January 24, 2007 between you and the Authority (the "Purchase Contract"). The Bonds are issued pursuant to Resolution No. 1-07 adopted by the Board of Directors of the Authority on January 17, 2007, Resolution No. 06-647 adopted by the City Council (the "City Council") of the City of Roseville, California (the "Municipality") on December 6, 2006, and Resolution No. 07-22 adopted by the City Council on January 17, 2007 (collectively, the "Resolution"). All capitalized terms not otherwise defined herein shall have the meanings given to them in the Purchase Contract.

In our capacity as your counsel, we have examined originals, or copies certified or otherwise identified to our satisfaction as being true copies of the originals, of such documents, records and other instruments as we have deemed necessary or appropriate for purposes of this opinion, including without limitation: (i) the Purchase Contract; (ii) the Resolution; (iii) the Trust Indenture, dated as of February 1, 2007, by and between the Authority and The Bank of New York Trust Company, N.A., as Trustee (the "Indenture"); (iv) the Preliminary Official Statement of the Authority dated January 18, 2007 with respect to the Bonds; and (v) the Official Statement of the Authority dated January 24, 2007 with respect to the Bonds (the "Official Statement").

We have also reviewed the opinion of the law firm of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), which opinion states in relevant part that the Bonds and the Indenture constitute valid and binding obligations of the Authority.

ALBANY, NY • BOSTON, MA • BUFFALO, NY • GARDEN CITY, NY • HARTFORD, CT • LOS ANGELES, CA • MANCHESTER, NH • McLEAN, VA • NEW YORK, NY
ORANGE COUNTY, CA • PALM BEACH GARDENS, FL • PHILADELPHIA, PA • PROVIDENCE, RI • ROCHESTER, NY • SAN FRANCISCO, CA • WASHINGTON, DC

On the basis of the foregoing and in reliance thereon, we are of the opinion that: (i) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and (ii) assuming the due authorization, execution and delivery of the Continuing Disclosure Certificate by the Municipality and the enforceability thereof, the Continuing Disclosure Certificate satisfies (b)(5)(i) of Rule 15c2-12, for an undertaking for the benefit of the owners of the Bonds to provide the information in the manner and at the times required by Rule 15c2-12.

We are not passing on and have not undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, and we make no representation to you concerning the accuracy, completeness or fairness of such statements. However, on the basis of our conferences and discussions with representatives of you and representatives of the Authority, Bond Counsel, and others, during which the contents of the Official Statement and related matters were discussed, and on the basis of our examination of the documents and matters referred to above, nothing has come to the attention of the attorneys in our firm rendering legal services in connection with the purchase by the Purchaser of the Bonds that caused us to believe that the Official Statement, as of its date or as of the date hereof (except for any financial, statistical, economic, demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, the Appendices thereto, or any information about book-entry, The Depository Trust Company, tax exemption, the Prepaid Gas Agreement, the Supply Agreement, the Funding Agreement, the Forward Delivery Agreement, the Gas Supplier, the Commodity Swap, the Seller Swap Agreement, the Swap Counterparty, the Seller Guarantee, the Funding Guarantee and the Guarantor included or referred to therein, as to which, with your permission, we express no view), contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering our opinion, we are expressing no opinion on the validity of the Bonds or on the exclusion of interest on the Bonds from the gross income of the holders thereof for federal income tax purposes. We understand you are relying on the opinion of Bond Counsel in that regard.

This opinion letter is rendered pursuant to the Purchase Contract solely to and for the benefit of the persons to whom it is addressed in connection with the matter described above; accordingly, it may not be quoted or otherwise delivered to or relied upon by any other person (including, without limitation, any person who acquires the Bonds from the persons to whom this letter is addressed) or used for any other purpose without our prior written consent. Our engagement with respect to this matter does not extend beyond the date hereof, and we disclaim any obligation to update this letter.

Respectfully submitted,

Nixon Peabody LLP

JACKSON WALKER L.L.P.
ATTORNEYS & COUNSELORS

February 6, 2007

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

Ladies and Gentlemen:

We have acted as special counsel to Merrill Lynch Commodities, Inc., a Delaware corporation ("***Seller***"), and Merrill Lynch & Co., Inc., a Delaware corporation ("***Guarantor***"; and together with Seller are sometimes referred to collectively as the "***Merrill Parties***"), in connection with the sale of natural gas to Roseville Natural Gas Finance Authority, a joint exercise of powers agency and a public entity of the State of California ("***Purchaser***"), pursuant to the Agreements (defined below). The opinions contained herein are being delivered to you pursuant to the requirements of subsections 22.3.5 and 22.3.6 of Section 22.3 of the Agreement for Purchase and Sale. Any capitalized term used but not defined herein shall have the meaning given such term in the Agreement for Purchase and Sale.

1. **Documents Reviewed**. In our capacity as special counsel to the Merrill Parties, we have reviewed or examined, and are familiar with, originals or copies, certified or otherwise identified to our satisfaction, of the following documents:

(a) Agreement for Purchase and Sale of Natural Gas dated as of January 24, 2007, between Seller and Purchaser (the "***Agreement for Purchase and Sale***");

(b) Funding and Assignment Agreement dated as of January 24, 2007, between Seller and Purchaser (the "***Funding Agreement***"; and together with the Agreement for Purchase and Sale are sometimes referred to collectively as the "***Agreements***");

(c) Guarantee of Merrill Lynch & Co., Inc. dated February 1, 2007, executed by Guarantor, guaranteeing Seller's payment obligations under the Agreement for Purchase and Sale;

(d) Guarantee of Merrill Lynch & Co., Inc. dated February 1, 2007, executed by Guarantor, guaranteeing Seller's payment obligations under the Funding Agreement (such Guarantee, together with the Guaranty described in subparagraph (c) above, the "***Guarantees***"); and

(e) the organizational documents of the Merrill Parties listed on the attached Schedule 1.

The documents listed as (a) through (d) above are hereinafter collectively referred to as the "***Transaction Documents***"; and documents listed as (a) through (e) above are hereinafter collectively referred to as the "***Documents***."

In addition to our review of the foregoing, we have conducted such other investigation of law as we have considered necessary or appropriate as the basis for the opinions hereinafter expressed.

Our opinions herein are based upon our consideration of only those statutes, rules and regulations which, in our experience, are customarily applicable to sellers and guarantors in natural gas purchase and sale transactions; provided, that no opinion is expressed as to securities laws, tax laws, antitrust or trade regulation laws, insolvency or fraudulent transfer laws, antifraud laws, pension or employee benefit laws, compliance with fiduciary duty requirements, environmental laws, or other laws excluded by customary practice. We express no opinion as to any state or federal laws, or regulations applicable to the subject transactions because of the legal or regulatory status or nature or extent of the business of Purchaser or any of its affiliates.

2. **Assumptions**. In rendering the opinions expressed herein, we have assumed, with your permission and without independent investigation or inquiry, the following:

(a) the authenticity of all documents submitted to us as originals and the conformity to authentic originals of documents submitted to us as certified, conformed or photostatic copies;

(b) the legal capacity of each natural person executing the Documents, whether individually or on behalf of an entity;

(c) all signatures on the Documents are genuine;

(d) each natural person executing the Documents on behalf of an entity (other than the individuals signing on behalf of the Merrill Parties), is duly authorized to do so;

(e) the due authorization of the Agreements by Purchaser;

(f) Purchaser is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation and has full power and authority to execute, deliver and perform its obligations under the Agreements, each of the Agreements constitutes a valid and legally binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, and Purchaser has fulfilled

and complied with its obligations under the Transaction Documents to the extent required thereunder to date;

(g) each of the Transaction Documents, in the form examined by us, with any blanks properly filled in and correct exhibits attached, has been duly executed and delivered by Purchaser, and no consents, permissions or authorizations are required from any other parties in connection with the execution and delivery of the Transaction Documents by Purchaser;

(h) the terms and conditions of the Transaction Documents have not been amended, modified or supplemented by any other agreement or understanding of the Merrill Parties and Purchaser (hereinafter sometimes collectively referred to as the "***Parties***"), or by waiver of any of the material provisions of the Transaction Documents; and

(i) the adequacy of consideration to all of the Parties.

3. **Opinions**. Based upon and subject to the foregoing, and subject to the further qualifications hereinafter set forth, we are of the opinion that:

(a) Existence, Power and Authority. Each of the Merrill Parties is a corporation, validly existing and in good standing under the laws of the State of Delaware, and each has all requisite corporate power and authority to execute and deliver the Transaction Documents to which it is a party and to perform its respective obligations thereunder.

(b) Authorization. The execution and delivery by each of the Merrill Parties of the Transaction Documents to which it is a party and performance of its obligations thereunder have been authorized by all necessary corporate action on the part of the respective Merrill Parties.

(c) Execution and Delivery. In reliance on the statements made in the Officer's Certificates (as such term is defined on the attached Schedule 1), each of the Merrill Parties has duly executed and delivered the Transaction Documents to which it is a party.

(d) Enforceability of the Transaction Documents. Each of the Agreements constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms. Each of the Guarantees constitutes the legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms.

4. **Qualifications**. The opinions expressed in subparagraphs (a) through (d) of Paragraph 3 above are subject to the following qualifications and exclusions:

(a) The enforcement of the Transaction Documents may be limited by (i) applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent transfer, moratorium or other laws affecting creditors' rights generally; (ii) general equitable principles and the availability of equitable remedies, as such, in connection with the enforcement of rights granted under the Transaction Documents, including, but not limited to, specific performance and the effects of the application of principles of equity (regardless of whether enforcement is considered in proceedings in law or in equity); (iii) such duties as Purchaser may have to act reasonably and in good faith and otherwise in accordance with the applicable provisions of the Uniform Commercial Code as adopted and presently in effect in the State of New York; and (iv) other applicable federal and state laws, statutes, ordinances, rules, regulations, judicial decisions and constitutional requirements, which may delay, but should not materially diminish, the practical realization of the enforceability of the obligations or remedies provided by the Transaction Documents.

(b) We express no opinion as to the validity or enforceability of any provisions (i) releasing, exculpating or exempting a party from, or requiring indemnification or contribution of a party for liability for, its own action or inaction, to the extent that (A) such provisions are inconsistent with public policy or are otherwise prohibited by applicable federal or state laws, (B) such action or inaction involves negligence, strict liability, gross negligence, recklessness, willful misconduct, unlawful conduct, fraud or illegality, or (C) such provisions otherwise operate to shift risk in an extraordinary way; (ii) restricting access to courts or to legal or equitable remedies or purporting to affect the jurisdiction or venue of courts; (iii) purporting to establish evidentiary standards for suits or proceedings to enforce the Transaction Documents; (iv) purporting to waive rights to notice, legal defenses, statutes of limitations or other benefits that cannot be waived under applicable law; (v) relating to liquidated damages, delays or omissions of enforcement of rights or remedies, consent judgments or summary proceedings; (vi) purporting to grant powers of attorney or authority to execute documents or to act by power of attorney on behalf of Seller; (vii) purporting to grant the right of any person or entity to institute or maintain any action in any court; (viii) purporting to restrict or limit transfer or alienation of real property; (ix) providing for the transfer of assets which by their nature are nontransferable; (x) purporting to grant a right to the appointment of a receiver other than as provided under New York law; (xi) self-help remedies provided for in the Transaction Documents; (xii) provisions purporting to provide remedies inconsistent with the Uniform Commercial Code of the State of New York, to the extent that such Uniform Commercial Code is applicable thereto; (xiii) provisions purporting to grant to or limit rights of third parties. We also express no opinion as to any question of usury.

(c) As to matters of fact material to the opinions expressed herein, we have relied on the assumptions made herein and the representations and warranties set forth in the Transaction Documents. Except as set forth herein, we have not undertaken any

investigation to determine the existence of such facts, and no inference as to our knowledge thereof may be drawn from the fact of our representations of any party or otherwise. Except as set forth herein, we have not made any independent review or investigation of any factual matter.

The opinions expressed herein are limited to the extent that the relevant issues are governed by the general contract laws of the State of New York and the Delaware General Corporation Law. We express no opinion with respect to any laws of any other jurisdiction. With respect to any matters concerning the Delaware General Corporate Law involved in the opinions set forth above, we draw to your attention that we are not admitted to the bar of the State of Delaware and are not experts in the law of such jurisdiction. Any such opinion concerning the Delaware General Corporate Law is based solely upon our review of the statutory language as set forth in the 2005-2006 edition of the Delaware Corporation Laws Annotated published by LexisNexis Publishing and does not include any review of any legislative history or judicial decisions or any rules, regulations, guidelines, releases or interpretations concerning the Delaware General Corporate Law. We have assumed, with your permission, that such publication accurately sets forth the provisions of the Delaware General Corporate Law as in effect on the date hereof.

The opinions contained herein are limited solely to the matters stated in Paragraph 3 hereof, and no opinion is to be inferred or may be implied beyond the matters expressly stated herein.

The opinions expressed herein are as of the date first set forth above, and we do not assume or undertake any responsibility or obligation to supplement or to update such opinions to reflect any facts or circumstances which may hereafter come to our attention or any changes in the laws which may hereafter occur.

This opinion has been rendered solely for your benefit and may not be used, circulated, quoted, relied upon or otherwise referred to for any other purpose without our prior written consent.

Very truly yours,

JACKSON WALKER L.L.P.

Jackson Walker L.L.P.

PEV/LAW/JBS:lc

SCHEDULE 1

ORGANIZATION DOCUMENTS OF THE MERRILL PARTIES

1. Organizational documents of Seller:

   (a) Seller's Certificate of Incorporation, as certified by the Secretary of State of the State of Delaware (the "***Delaware SOS***") on January 31, 2007;

   (b) Seller's Bylaws;

   (c) Certified Resolution and Incumbency Certificate dated as of February 6, 2007, executed by the Assistant Secretary of Seller, certifying as to the resolutions adopted by the Board of Directors of Seller and incumbency of Seller's officers (the "***Officer's Certificate***"); and

   (d) a certificate issued by the Delaware SOS on January 31, 2007, certifying as to the good standing of Seller in the State of Delaware as of such date.

2. Organizational documents of Guarantor:

   (a) Guarantor's Restated Certificate of Incorporation, as amended to date, as certified by the Assistant Secretary of Guarantor;

   (b) Guarantor's Amended By-Laws;

   (c) Certificate of Incumbency dated as of February 6, 2007, executed by the Assistant Secretary of Guarantor (such certificate together with the Officer's Certificate, the "***Officer's Certificates***"); and

   (d) a certificate issued by the Delaware SOS on January 31, 2007, certifying as to the good standing of Guarantor in the State of Delaware as of such date.

JACKSON WALKER L.L.P.

ATTORNEYS & COUNSELORS

February 6, 2007

Wachovia Bank, National Association
One Wachovia Center
301 South College Street
Charlotte, NC 28288

Re: Jackson Walker Legal Opinion to Roseville Natural Gas Financing Authority Dated February 6, 2007

Ladies and Gentlemen:

We have delivered the referenced legal opinion which is attached hereto for your convenience. You may rely on said opinion as though the same were addressed to you. No attorney-client relationship has existed or exists between the addressee of this letter and our firm by virtue of this letter.

Very truly yours,

JACKSON WALKER L.L.P.

Jackson Walker L.L.P.

RECEIVED

FEB 7 2007

1401 McKinney Street, Suite 1900 • Houston, Texas 77010 • (713) 752-4200 • fax (713) 752-4221

JACKSON WALKER L.L.P.
ATTORNEYS & COUNSELORS

February 6, 2007

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

Ladies and Gentlemen:

We have acted as special counsel to Merrill Lynch Commodities, Inc., a Delaw corporation ("***Seller***"), and Merrill Lynch & Co., Inc., a Delaware corporation ("***Guaranto*** and together with Seller are sometimes referred to collectively as the "***Merrill Parties***"), ... connection with the sale of natural gas to Roseville Natural Gas Finance Authority, a joint exercise of powers agency and a public entity of the State of California ("***Purchaser***"), pursuant to the Agreements (defined below). The opinions contained herein are being delivered to you pursuant to the requirements of subsections 22.3.5 and 22.3.6 of Section 22.3 of the Agreement for Purchase and Sale. Any capitalized term used but not defined herein shall have the meaning given such term in the Agreement for Purchase and Sale.

1. **Documents Reviewed**. In our capacity as special counsel to the Merrill Parties, we have reviewed or examined, and are familiar with, originals or copies, certified or otherwise identified to our satisfaction, of the following documents:

(a) Agreement for Purchase and Sale of Natural Gas dated as of January 24, 2007, between Seller and Purchaser (the "***Agreement for Purchase and Sale***");

(b) Funding and Assignment Agreement dated as of January 24, 2007, between Seller and Purchaser (the "***Funding Agreement***"; and together with the Agreement for Purchase and Sale are sometimes referred to collectively as the "***Agreements***");

(c) Guarantee of Merrill Lynch & Co., Inc. dated February 1, 2007, executed by Guarantor, guaranteeing Seller's payment obligations under the Agreement for Purchase and Sale;

(d) Guarantee of Merrill Lynch & Co., Inc. dated February 1, 2007, executed by Guarantor, guaranteeing Seller's payment obligations under the Funding Agreement (such Guarantee, together with the Guaranty described in subparagraph (c) above, the "***Guarantees***"); and

(e) the organizational documents of the Merrill Parties listed on the attached Schedule 1.

The documents listed as (a) through (d) above are hereinafter collectively referred to as the "***Transaction Documents***"; and documents listed as (a) through (e) above are hereinafter collectively referred to as the "***Documents***."

In addition to our review of the foregoing, we have conducted such other investigation of law as we have considered necessary or appropriate as the basis for the opinions hereinafter expressed.

Our opinions herein are based upon our consideration of only those statutes, rules and regulations which, in our experience, are customarily applicable to sellers and guarantors in natural gas purchase and sale transactions; provided, that no opinion is expressed as to securities laws, tax laws, antitrust or trade regulation laws, insolvency or fraudulent transfer laws, antifraud laws, pension or employee benefit laws, compliance with fiduciary duty requirements, environmental laws, or other laws excluded by customary practice. We express no opinion as to any state or federal laws, or regulations applicable to the subject transactions because of the legal or regulatory status or nature or extent of the business of Purchaser or any of its affiliates.

2. **Assumptions**. In rendering the opinions expressed herein, we have assumed, with your permission and without independent investigation or inquiry, the following:

(a) the authenticity of all documents submitted to us as originals and the conformity to authentic originals of documents submitted to us as certified, conformed or photostatic copies;

(b) the legal capacity of each natural person executing the Documents, whether individually or on behalf of an entity;

(c) all signatures on the Documents are genuine;

(d) each natural person executing the Documents on behalf of an entity (other than the individuals signing on behalf of the Merrill Parties), is duly authorized to do so;

(e) the due authorization of the Agreements by Purchaser;

(f) Purchaser is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation and has full power and authority to execute, deliver and perform its obligations under the Agreements, each of the Agreements constitutes a valid and legally binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, and Purchaser has fulfilled

and complied with its obligations under the Transaction Documents to the extent required thereunder to date;

(g) each of the Transaction Documents, in the form examined by us, with any blanks properly filled in and correct exhibits attached, has been duly executed and delivered by Purchaser, and no consents, permissions or authorizations are required from any other parties in connection with the execution and delivery of the Transaction Documents by Purchaser;

(h) the terms and conditions of the Transaction Documents have not been amended, modified or supplemented by any other agreement or understanding of the Merrill Parties and Purchaser (hereinafter sometimes collectively referred to as the "***Parties***"), or by waiver of any of the material provisions of the Transaction Documents; and

(i) the adequacy of consideration to all of the Parties.

3. **Opinions**. Based upon and subject to the foregoing, and subject to the further qualifications hereinafter set forth, we are of the opinion that:

(a) Existence, Power and Authority. Each of the Merrill Parties is a corporation, validly existing and in good standing under the laws of the State of Delaware, and each has all requisite corporate power and authority to execute and deliver the Transaction Documents to which it is a party and to perform its respective obligations thereunder.

(b) Authorization. The execution and delivery by each of the Merrill Parties of the Transaction Documents to which it is a party and performance of its obligations thereunder have been authorized by all necessary corporate action on the part of the respective Merrill Parties.

(c) Execution and Delivery. In reliance on the statements made in the Officer's Certificates (as such term is defined on the attached Schedule 1), each of the Merrill Parties has duly executed and delivered the Transaction Documents to which it is a party.

(d) Enforceability of the Transaction Documents. Each of the Agreements constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms. Each of the Guarantees constitutes the legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms.

4. **Qualifications**. The opinions expressed in subparagraphs (a) through (d) of Paragraph 3 above are subject to the following qualifications and exclusions:

(a) The enforcement of the Transaction Documents may be limited by (i) applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent transfer, moratorium or other laws affecting creditors' rights generally; (ii) general equitable principles and the availability of equitable remedies, as such, in connection with the enforcement of rights granted under the Transaction Documents, including, but not limited to, specific performance and the effects of the application of principles of equity (regardless of whether enforcement is considered in proceedings in law or in equity); (iii) such duties as Purchaser may have to act reasonably and in good faith and otherwise in accordance with the applicable provisions of the Uniform Commercial Code as adopted and presently in effect in the State of New York; and (iv) other applicable federal and state laws, statutes, ordinances, rules, regulations, judicial decisions and constitutional requirements, which may delay, but should not materially diminish, the practical realization of the enforceability of the obligations or remedies provided by the Transaction Documents.

(b) We express no opinion as to the validity or enforceability of any provisions (i) releasing, exculpating or exempting a party from, or requiring indemnification or contribution of a party for liability for, its own action or inaction, to the extent that (A) such provisions are inconsistent with public policy or are otherwise prohibited by applicable federal or state laws, (B) such action or inaction involves negligence, strict liability, gross negligence, recklessness, willful misconduct, unlawful conduct, fraud or illegality, or (C) such provisions otherwise operate to shift risk in an extraordinary way; (ii) restricting access to courts or to legal or equitable remedies or purporting to affect the jurisdiction or venue of courts; (iii) purporting to establish evidentiary standards for suits or proceedings to enforce the Transaction Documents; (iv) purporting to waive rights to notice, legal defenses, statutes of limitations or other benefits that cannot be waived under applicable law; (v) relating to liquidated damages, delays or omissions of enforcement of rights or remedies, consent judgments or summary proceedings; (vi) purporting to grant powers of attorney or authority to execute documents or to act by power of attorney on behalf of Seller; (vii) purporting to grant the right of any person or entity to institute or maintain any action in any court; (viii) purporting to restrict or limit transfer or alienation of real property; (ix) providing for the transfer of assets which by their nature are nontransferable; (x) purporting to grant a right to the appointment of a receiver other than as provided under New York law; (xi) self-help remedies provided for in the Transaction Documents; (xii) provisions purporting to provide remedies inconsistent with the Uniform Commercial Code of the State of New York, to the extent that such Uniform Commercial Code is applicable thereto; (xiii) provisions purporting to grant to or limit rights of third parties. We also express no opinion as to any question of usury.

(c) As to matters of fact material to the opinions expressed herein, we have relied on the assumptions made herein and the representations and warranties set forth in the Transaction Documents. Except as set forth herein, we have not undertaken any

investigation to determine the existence of such facts, and no inference as to our knowledge thereof may be drawn from the fact of our representations of any party or otherwise. Except as set forth herein, we have not made any independent review or investigation of any factual matter.

The opinions expressed herein are limited to the extent that the relevant issues are governed by the general contract laws of the State of New York and the Delaware General Corporation Law. We express no opinion with respect to any laws of any other jurisdiction. With respect to any matters concerning the Delaware General Corporate Law involved in the opinions set forth above, we draw to your attention that we are not admitted to the bar of the State of Delaware and are not experts in the law of such jurisdiction. Any such opinion concerning the Delaware General Corporate Law is based solely upon our review of the statutory language as set forth in the 2005-2006 edition of the Delaware Corporation Laws Annotated published by LexisNexis Publishing and does not include any review of any legislative history or judicial decisions or any rules, regulations, guidelines, releases or interpretations concerning the Delaware General Corporate Law. We have assumed, with your permission, that such publication accurately sets forth the provisions of the Delaware General Corporate Law as in effect on the date hereof.

The opinions contained herein are limited solely to the matters stated in Paragraph 3 hereof, and no opinion is to be inferred or may be implied beyond the matters expressly stated herein.

The opinions expressed herein are as of the date first set forth above, and we do not assume or undertake any responsibility or obligation to supplement or to update such opinions to reflect any facts or circumstances which may hereafter come to our attention or any changes in the laws which may hereafter occur.

This opinion has been rendered solely for your benefit and may not be used, circulated, quoted, relied upon or otherwise referred to for any other purpose without our prior written consent.

Very truly yours,

JACKSON WALKER L.L.P.

Jackson Walker L.L.P.

PEV/LAW/JBS:lc

SCHEDULE 1

ORGANIZATION DOCUMENTS OF THE MERRILL PARTIES

1. Organizational documents of Seller:

   (a) Seller's Certificate of Incorporation, as certified by the Secretary of State of the State of Delaware (the "***Delaware SOS***") on January 31, 2007;

   (b) Seller's Bylaws;

   (c) Certified Resolution and Incumbency Certificate dated as of February 6, 2007, executed by the Assistant Secretary of Seller, certifying as to the resolutions adopted by the Board of Directors of Seller and incumbency of Seller's officers (the "***Officer's Certificate***"); and

   (d) a certificate issued by the Delaware SOS on January 31, 2007, certifying as to the good standing of Seller in the State of Delaware as of such date.

2. Organizational documents of Guarantor:

   (a) Guarantor's Restated Certificate of Incorporation, as amended to date, as certified by the Assistant Secretary of Guarantor;

   (b) Guarantor's Amended By-Laws;

   (c) Certificate of Incumbency dated as of February 6, 2007, executed by the Assistant Secretary of Guarantor (such certificate together with the Officer's Certificate, the "***Officer's Certificates***"); and

   (d) a certificate issued by the Delaware SOS on January 31, 2007, certifying as to the good standing of Guarantor in the State of Delaware as of such date.

JPMorganChase

January 24, 2007

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95648
Attn: Executive Director

Ladies and Gentlemen:

I am a Managing Director and Associate General Counsel of JPMorgan Chase Bank, National Association (the "Bank"). This opinion is being furnished in connection with the Master Agreement, Schedule, Confirmation thereunder and Credit Support Annex thereto (collectively, the "Agreement"), dated as of January 24, 2007, between the Bank and Roseville Natural Gas Financing Authority (the "Counterparty"). Terms defined in the Agreement are used herein as defined therein.

In connection with this opinion, I have examined a copy of the Agreement and the originals or copies, certified or otherwise identified to my satisfaction, of such records of the Bank and such documents, instruments and certificates of public officials and of officers of the Bank and have considered such questions of law, which, in my experience, are normally applicable to transactions of the type contemplated by the Agreement as I have deemed necessary to enable me to render the opinions set forth herein.

In my examination, I have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to me as originals, the completeness and conformity to original documents of all documents submitted to me as copies and the authenticity of the originals of such latter documents. In making my examination of documents executed by parties other than the Bank, I have assumed that each such party had the power, corporate or other, to execute each document and to perform its obligations thereunder, the due authorization by all requisite action, corporate or other, and execution and delivery by each such party of such documents and the validity and binding effect thereof, and insofar as any obligation is to be performed in a jurisdiction other than the State of New York, that performance of such obligation will not be illegal or ineffective by virtue of the law of such jurisdiction. As to any facts material to the opinions expressed herein which were not independently established or verified, I have relied upon oral or written statements and representations of officers and other representatives of the Bank and others. Nothing has come to my attention that would indicate that any of such statements or representations is inaccurate.

Based on the foregoing, and subject to the qualifications and limitations stated herein, I am of the opinion that:

(a) the Bank is validly existing as a national banking association under the laws of the United States of America.

(b) the Bank has the corporate power and authority to execute and perform the Agreement;

(c) the execution and performance by the Bank of the Agreement do not violate the charter or bylaws of the Bank or any law or regulation known to me to be applicable to the Bank or any order or judgment of any court having jurisdiction over the Bank known to me to be applicable to the Bank;

(d) no consent, authorization or approval of, or registration with, any governmental authority, agency or instrumentality of the federal government of the United States of America or the State of New York not previously obtained is required in connection with the Bank's execution or performance of the Agreement;

(e) the Agreement has been duly executed or delivered by the Bank and constitutes the legal, valid and binding obligation of the Bank enforceable against the Bank in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, receivership, moratorium or other laws affecting creditors' rights generally). The enforceability of the Bank's obligations under the Agreement is also subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and

(f) to the best of our knowledge, after due inquiry, there is not pending or threatened against the Bank or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, government body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against the Bank of the Agreement or its ability to perform its obligations thereunder.

The opinions set forth herein are subject to the following qualifications:

(i) I do not express any opinion as to whether a money judgment would be enforceable in a currency other than United States dollars or as to Section 10(a) of the Agreement or as to the enforceability of any Transaction governed by the Agreement heretofore or hereafter entered into.

(ii) In applying general principles of equity, a court might decline to enforce the conditions set forth in Section 2(a)(iii) of the Agreement and a Non-Defaulting Party's right set forth in Section 6 of the Agreement to designate an Early Termination Date if the condition or right were invoked in connection with a default deemed immaterial.

(iii) I express no opinion regarding the legality, validity, binding effect or enforceability of Section 6(e) of the Agreement insofar as it purports to obligate a party, on termination of Transactions, to pay an amount in excess of that measured by the lowest quotation from a Reference Market-maker. In addition, in connection with any such early termination on

the grounds of default, a court might limit the Non-Defaulting Party's recovery to its actual damages in the circumstances, imposing its own settlement procedures in lieu of the provisions of Section 6(e) of the Agreement.

I express no opinion as to the effect of any law other than the laws of the State of New York and the federal laws of the United States of America on the matters referred to herein.

This opinion is furnished to you solely for your benefit, may not be relied on by, nor may copies be delivered to, any other person without my prior written permission and is not to be used, circulated, quoted or otherwise referred to for any other purpose without my prior written permission.

Very truly yours,

By: _____
Name:: Melissa A. McMahon
Title: Managing Director and
Associate General Counsel

FSA

A Dexia Company

February 6, 2007

Financial Guaranty Insurance Policy No. 208094-NGP with respect to Scheduled Payments as defined in said Policy payable pursuant to the Natural Gas Supply Agreement, dated as of February 6, 2007, between Roseville Natural Gas Financing Authority and the City of Roseville

Ladies and Gentlemen:

I am Associate General Counsel of Financial Security Assurance Inc., a New York stock insurance company ("Financial Security"). You have requested my opinion in such capacity as to the matters set forth below in connection with the issuance by Financial Security of its above-referenced policy (the "Policy"). In that regard, and for purposes of this opinion, I have examined such corporate records, documents and proceedings as I have deemed necessary and appropriate.

Based upon the foregoing, I am of the opinion that:

1. Financial Security is a stock insurance company duly organized and validly existing under the laws of the State of New York and authorized to transact financial guaranty insurance business therein.

2. The Policy has been duly authorized, executed and delivered by Financial Security.

3. The Policy constitutes the valid and binding obligation of Financial Security, enforceable in accordance with its terms, subject, as to the enforcement of remedies, to bankruptcy, insolvency, reorganization, rehabilitation, moratorium and other similar laws affecting the enforceability of creditors' rights generally applicable in the event of the bankruptcy or insolvency of Financial Security and to the application of general principles of equity.

I am a member of the Bar of the State of New York, and do not express any opinion as to the law of any other state except for the matters expressly set forth in the foregoing opinion.

Very truly yours,

Michael Cooper
Associate General Counsel

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, California 95678

Merrill Lynch, Pierce, Fenner & Smith Incorporated
3455 Peachtree Road, Suite 200
Atlanta, Georgia 30326

The Bank of New York Trust Company, N.A., as trustee
550 Kearny Street, Suite 600
San Francisco, California 94108

JENSEN LAW OFFICE

3708 MOUNT DIABLO BOULEVARD, SUITE 120
LAFAYETTE, CA 94549-3630
TELEPHONE (925) 284-7071
FACSIMILE (925) 284-7079
pkjensen@att.net

6 February 2007

Roseville Natural Gas Financing Authority
Roseville, California

Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, New York

Financial Security Assurance Inc.
New York, New York

OPINION RE: Roseville Natural Gas Financing Authority
Gas Revenue Bonds
Series 2007

Ladies and Gentlemen:

We have acted as special counsel to The Bank of New York Trust Company, N.A. (the "Trustee") in its capacity as Trustee under that certain Trust Indenture, dated as of February 1, 2007 (the "Indenture"), by and between Roseville Natural Gas Financing Authority and the Trustee, relating to the referenced Gas Revenue Bonds (the "Bonds").

In that connection, we have examined originals or copies of the Indenture and such records, documents, instruments, certificates of public officials and of the Trustee as deemed necessary for the purpose of rendering the opinions set forth below.

We have assumed the genuineness of all signatures and the authenticity of all items submitted to us as originals and the conformity with originals of all items submitted to us as copies. In making our examination, we have assumed that each party to the documents other than the Trustee has the power to enter into and perform its obligations thereunder, has duly authorized, executed and delivered such documents, and that such documents constitute the legal, valid and binding obligations of such party. We have not undertaken to independently verify the accuracy of the factual matters represented, warranted or certified in such documents.

We call attention to the fact that the rights and obligations under the Indenture and related documents are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

Based on the foregoing, and subject to the following qualifications, we are of the opinion that:

[1] The Trustee is a national banking association, duly organized and validly existing and in good standing under the laws of the United States of America having the legal authority to exercise trust powers in the State of California and having full power and authority to enter into and to perform its duties as Trustee under the Indenture.

[2] The Trustee has duly authorized, executed and delivered the Indenture and by all proper corporate action has authorized the acceptance of the trusts of the Indenture.

[3] The Indenture constitutes a legally valid and binding agreement of the Trustee, enforceable against it in accordance with its terms.

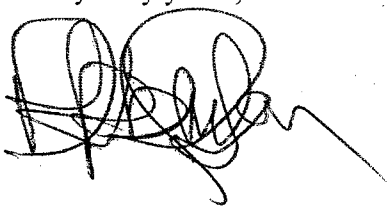
[4] The Bonds have been validly authenticated, registered and delivered by the Trustee, as Trustee.

[5] No authorization, approval, consent or other order of the State of California or any other federal or state governmental authority or agency having jurisdiction over the Trustee, or, to our knowledge after reasonable investigation, any other person or corporation, is required for the valid authorization, execution, delivery and performance by the Trustee of the Indenture.

We express no opinion as to any matter other than as expressly set forth above. We express no opinion as to matters governed by any laws other than the substantive laws of the State of California (without reference to its conflicts of laws rules) and the federal laws of the United States of America which are in effect on the date hereof. No opinion is expressed as to the perfection, validity, priority or enforceability of any security interest or lien created to secure the Bonds, and no opinion is expressed as to the applicability, or the effect thereof, of federal or state securities or "Blue Sky" laws or of any federal or state tax laws.

This opinion is as of the date hereof, and we undertake no obligation to advise you of any change in any matter set forth herein. This opinion is solely for the benefit of each addressee and its counsel, and may not be relied upon in any manner, or used, by any other person.

Very truly yours,



KUTAK ROCK LLP

SUITE 2100
PEACHTREE CENTER SOUTH TOWER
225 PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30303-1731

404-222-4600
FACSIMILE 404-222-4654

www.kutakrock.com

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OKLAHOMA CITY
OMAHA
PASADENA
RICHMOND
SCOTTSDALE
WASHINGTON
WICHITA

February 6, 2007

Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

The Bank of New York Trust Company, N.A., as Trustee
Suite 600
550 Kearny Street
San Francisco, CA 94108

Roseville Natural Gas Financing Authority
Gas Revenue Bonds
Series 2007

Ladies and Gentlemen:

We have acted as counsel to Wachovia Bank, National Association (the "Provider"), in connection with its execution and delivery of the Debt Service Fund Forward Delivery Agreement, dated as of February 1, 2007 (the "Agreement"), by and among Roseville Natural Gas Financing Authority (the "Issuer"), The Bank of New York Trust Company, N.A. (the "Trustee") and the Provider. Capitalized terms used herein and not defined herein have the respective meanings given to them in the Agreement.

In connection with the rendering of this opinion, we have examined the Agreement and such other documents, records, certificates and instruments as we have deemed necessary in connection with the rendering of this opinion (such documents are collectively referred to herein as the "Documents"). In such examination we have assumed, without any independent investigation or inquiry on our part: (i) the genuineness of all signatures on each of the Documents; (ii) the legal capacity of all natural persons who have signed the Documents; (iii) the authenticity of all Documents submitted to us as originals, the conformity to the original documents of all Documents submitted to us as certified, facsimile or photostatic copies or in electronic form and the authenticity of the originals of all such Documents; (iv) that each of the parties (other than the Provider) to the Documents has been duly formed and organized and is validly existing and in good standing under the laws of the jurisdiction of its incorporation or establishment; (v) that each of the parties (other than the Provider) to the Documents (A) has

duly authorized, executed and delivered such Documents, (B) has all requisite power and authority to enter into and perform its respective obligations under such Documents and (C) has obtained, secured or made all consents and approvals of, notice to, or registrations required with or by any governmental authorities, agencies or instrumentalities in connection with its execution, delivery and performance of, the Documents to which it is a party; (vi) the execution, delivery and performance by each of the parties (other than the Provider) of such Documents which it is a party will not contravene any provision of such party's articles of incorporation, by-laws, articles of organization, operating agreement, certificate of formation, limited liability company agreement or other governing instrument; and (vii) that there are no other agreements or understandings among the parties to such Documents, written or oral, and there is no usage of trade or course of prior dealings among the parties thereto that would, in any case, define, supplement, alter or qualify the terms of such Documents. As to all matters of fact we have relied in good faith on certificates and other statements of public officials and officers and other representatives of the Provider, and we have made no inquiries to establish or verify these or any other facts material to this opinion.

In giving the opinions expressed below we do not purport to be expert in or generally familiar with or qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States and the laws of the State of New York and the opinions expressed herein are limited to the federal laws of the United States and the laws of the State of New York. We express no opinion as to the validity or enforceability of any choice of law, choice of forum or waiver provision contained in the Agreement. We express no opinion as to the availability of equitable remedies to persons seeking to enforce the obligations of the Bank under the Agreement.

Based upon the foregoing examination and review, we are of the opinion that:

(a) The Provider has full corporate power and authority to enter into the Agreement.

(b) The Agreement has been duly authorized, executed and delivered by the Provider and constitutes a legal, valid and binding obligation of the Provider, enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

This opinion may be relied upon by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or Fitch Ratings to the extent any assign investment ratings to the Bonds, as if this opinion were addressed to them.

This opinion is limited to the matters expressly set forth above, and no opinion is implied or may be inferred beyond the matters expressly so stated. This opinion is delivered to you, and any rating agency referenced in the preceding paragraph, in connection with the above-referenced transaction and may not be utilized or quoted by you, or such rating agency, for any other purpose whatsoever or delivered to any other person without our prior written consent. This opinion is given as of the date hereof and we expressly disclaim any responsibility to update this opinion or advise you of any changes of law, facts or circumstances of any kind that may occur after the date hereof which might affect the opinion expressed herein.

Very truly yours

Kutak Rock LLP

Bill Lockyer
State Treasurer and Chair

STATE OF CALIFORNIA

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION
915 CAPITOL MALL, ROOM 400
P.O. BOX 942809
SACRAMENTO, CA 94209-0001
TELEPHONE: (916) 653-3269
FAX: (916) 654-7440

January 23, 2007

TO: Laura A Gao
Orrick Herrington & Sutcliffe
777 S Figueroa St Ste 3200
Los Angeles, CA 90017

FROM: Jane W. Thompson, Executive Director

RE: ACKNOWLEDGEMENT OF REPORT OF PROPOSED DEBT ISSUANCE

Section 8855(k) of the California Government Code requires written notice to be given to the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the proposed sale of any public agency debt issue.

CDIAC acknowledges receipt of your notice of the following proposed debt issuance:

CDIAC Nbr:	2007-0075
Issuer:	Roseville Natural Gas Financing Authority
Project:	Power generation/transmission
Proposed Amount:	$235,000,000.00
Proposed Sale Date:	February 22, 2007
Date Notice Received:	January 22, 2007

Issuers may electronically file the ***Report of Final Sale*** through CDIAC's website, using the following information:

CDIAC Nbr:	2007-0075
Password:	25006342

A *CDIAC Number* and *Password* will be provided for each electronic filing of the ***Report of Proposed Debt Issuance***. This information is unique to this filing and must be used for any subsequent reporting under this *CDIAC Number*.

Please submit the ***Report of Final Sale*** and the Official Statement(or Offering Memorandum) on this issue within 45 days of the signing of the bond purchase contract or the acceptance of a bid to purchase the debt, to www.treasurer.ca.gov/cdiac/reporting.htm under the heading "Reporting Forms". Official Statements or Offering Memorandums can be sent by e-mail to CDIAC_issuance@treasurer.ca.gov.

Any questions regarding reporting requirements may be directed to the CDIAC's Data Unit at (916) 653-3269.

Cc: Bob Schmitt
Asst City Attorney

REPORT OF PROPOSED DEBT ISSUANCE

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-0001
Tel.: (916) 653-3269 FAX: (916) 654-7440

For Office Use Only

CDIAC NO.: _____

RCVD JAN 22 '07

Completion and timely submittal of this form to the California Debt and Investment Advisory Commission (CDIAC) at the above address will assure your compliance with existing California State law and will assist in the maintenance of a complete database of public debt in California. Thank you for your cooperation.[1]

ISSUER NAME: Roseville Natural Gas Financing Authority

ISSUE NAME: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007

Please specify type/name of project: Gas Revenue Bonds

PROPOSED SALE DATE: February 22, 2007 **PRINCIPAL TO BE SOLD:** $235,000,000

IS ANY PORTION OF THE DEBT FOR REFUNDING?[2]

☒ No ☐ Yes, proposed amount for refunding $_____

Issuer Contact:

Name: Bob Schmitt

Title: Assistant City Attorney

Address: City of Roseville, 311 Vernon Street, Roseville, California 95678

Phone: (916) 774-5325 Issuer Located In Placer County

Filing Contact:: Name of Individual (representing: ☒ Bond Counsel, ☐ Issuer, ☐ Financial Advisor, or ☐ Lead Underwriter) who completed this form and may be contacted for information:

Name: Laura A. Gao, Project Manager for Eugene J. Carron, Esq.

Firm/Agency: Orrick, Herrington & Sutcliffe LLP

Address: 777 South Figueroa Street, Suite 3200, Los Angeles, California 90017

Phone: (213) 612-2131 E-mail: lgao@orrick.com

Send acknowledgement/copies to: Laura A. Gao

FINANCING PARTICIPANTS:

BOND COUNSEL: Orrick, Herrington & Sutcliffe LLP

FINANCIAL ADVISOR: _____

UNDERWRITER\PURCHASER: Merrill Lynch, Pierce, Fenner & Smith Incorporated

IS THE INTEREST ON THE DEBT TAXABLE?

Under State law: ☒ NO (tax-exempt) ☐ YES (taxable)

Under Federal law: ☒ NO (tax-exempt) ☐ YES (taxable)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax?

☐ Yes, preference item ☒ No, not a preference item

TYPE OF SALE: ☐ **Competitive** ☒ **Negotiated**

---

1 *Section 8855(g) of the California Government Code requires the issuer of any proposed new public debt issue to give written notice of the proposed sale to the CDIAC no later than 30 days prior to the sale. Under California Government Code Section 8855(i), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement to the commission. The Commission may require information to be submitted in the report of final sale that is considered appropriate."*

2 *Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to the CDIAC explaining the reasons why the local agency determined to sell the bonds at private sale or on a negotiated basis instead of at public sale.*

TYPE OF DEBT INSTRUMENT

NOTE

- ☐ Bond anticipation (BAN)
- ☐ Grant obligation (GAN)
- ☐ Other note (Please specify below.) (OTHN)
- ☐ Revenue anticipation (RAN)
- ☐ Tax allocation (TALN)
- ☐ Tax and revenue anticipation (TRAN)
- ☐ Tax anticipation (TAN)

- ☐ Commercial paper (CP)
- ☐ Certificates of participation/leases (COPL)
- ☐ Other (Please specify below.) (OTH)

BOND

- ☐ Conduit revenue (Private obligor) (CRB)
- ☐ General obligation (GOB)
- ☐ Limited tax obligation (LTOB)
- ☐ Other bond (Please specify below.) (OTHB)
- ☐ Public lease revenue (PLRB)
- ☐ Revenue (Pool) (RB)
- ☒ Revenue (Public enterprise) (PERB)
- ☐ Sales tax revenue (STRB)
- ☐ Special assessment (SAB)
- ☐ Tax allocation (TAB)

Please specify if "Other note/Other bond/Other" was checked: _____

SOURCE(S) OF REPAYMENT

- ☐ Bond proceeds (BDPR)
- ☐ General fund of issuing jurisdiction (GNFD)
- ☐ Grants (GRNT)
- ☐ Intergovernmental transfers other than grants (ITGV)
- ☐ Local obligations (LOB)
- ☐ Private obligor payments (POP)
- ☐ Other (Please specify.) (OTHS): _____

- ☐ Property tax revenues (PRTX)
- ☒ Public enterprise revenues (PER)
- ☐ Sales tax revenues (SATR)
- ☐ Special assessments (SA)
- ☐ Special tax revenues (SPTR)
- ☐ Tax-increment (TI)

PURPOSE(S) OF FINANCING

- ☐ Cash flow, interim financing (CFIF)
- ☐ Project, interim financing (PIF)

- ☐ College/university housing (CUH)
- ☐ Multifamily housing (MFH)[3]
- ☐ Single-family housing (SFH)[3]

- ☐ Health care facilities (HCF)
- ☐ Hospital (HOSP)
- ☐ Other/multiple health care purposes (equipment; etc.)(OMHC)

- ☐ College/university facility (CUF)
- ☐ K-12 school facility (KSCH)
- ☐ Other/multiple education uses (equipment, etc.)(OMED)
- ☐ Student loans (SLC)

- ☐ Redevelopment, multiple uses (RD)

- ☐ Commercial development (CMDV)
- ☐ Industrial development (INDV)
- ☐ Pollution control (PC)

- ☐ Airport (APRT)
- ☐ Bridges and highways (BRHI)
- ☐ Convention center (CCTR)
- ☐ Equipment (EQUP)
- ☐ Flood control/storm drainage (FLDS)
- ☐ Multiple capital improvements and public works (MCAP)
- ☐ Other capital improvements and public works (OCAP)
- ☐ Parking (PRKG)
- ☐ Parks/open space (PRKO)
- ☐ Ports and marinas (PRTS)
- ☒ Power generation/transmission (PWR)
- ☐ Prisons/jails/correctional facilities (PRSN)
- ☐ Public building (PB)
- ☐ Public transit (PTR)
- ☐ Recreation and sports facilities (RCSP)
- ☐ Seismic safety improvements/repair (SSI)
- ☐ Solid waste recovery facilities (SWST)
- ☐ Street construction and improvements (SCI)
- ☐ Wastewater collection and treatment (WSTW)
- ☐ Water supply/storage/distribution (WTR)

- ☐ Insurance/pension funds (IPF)
- ☐ Other than listed above (OTH)s

Please Specify type/name of project if different from above: Gas Revenue Bonds

[3] *Certain local government issuers of housing bonds are required to obtain a certification from the State Treasurer attesting to their compliance with the State housing reporting requirements prior to issuance of the bonds to finance single- or multifamily housing.*

REPORT OF FINAL SALE

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-0001
Tel.: (916) 653-3269 FAX: (916) 654-7440

For Office Use Only

RCVD FEB 8 '07

Under California Government Code Section 8855(i), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement to the Commission. The Commission may require information to be submitted in the report of final sale that is considered appropriate."

CDIAC NO #: 2007-0075

ISSUER NAME: Roseville Natural Gas Financing Authority

(If pool bond, list participants)

ISSUE NAME: Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007

IF THIS IS A POOLED FINANCING, WHICH ISSUANCE STATUTE IS IT AUTHORIZED UNDER?

☐ **1) Marks-Roos Local Bond Pooling Act** ☐ **2) JPA Law** ☐ **3) Installment Sales Agreement, Lease** ☐ **4) Housing Revenue Bond Law & Industrial Development Bond Law** ☐ **5) Other** _____

WILL A VALIDATION ACTION BE PURSUED? ☒ No ☐ Yes ☐ Unknown

ACTUAL SALE DATE: January 24, 2007 **PRINCIPAL SOLD:** $209,350,000

IS ANY PORTION OF THE DEBT FOR REFUNDING?[1]

☒ No ☐ Yes, refunding amount (including costs) $_____

Issuer Contact:

Name: Bob Schmitt

Title: Assistant City Attorney

Address: City of Roseville, 311 Vernon Street, Roseville, California 95678

Phone: (916) 774-5325 **ISSUER LOCATED IN** Placer **COUNTY**

Filing Contact:: Name of Individual (representing: ☒ Bond Counsel, ☐ Issuer, ☐ Financial Advisor, or ☐ Lead Underwriter) who completed this form and may be contacted for information:

Name: Laura A. Gao, Project Manager for Eugene J. Carron, Esq.

Firm/Agency: Orrick, Herrington & Sutcliffe LLP

Address: 777 S. Figueroa St., Suite 3200, Los Angeles, California 90017

Phone: (213) 612-2131 **E-mail:** lgao@orrick.com

Send acknowledgement/copies to: Laura A. Gao

Name of individual to whom an invoice for the CDIAC issue fee should be sent:[2]

Name: Gregory Dawley, Vice President

Firm: Merrill Lynch, Pierce, Fenner & Smith Incorporated

Address: 350 S. Grand Avenue, Suite 2800, Los Angeles, California 90071

Phone: (213) 217-4504

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[1] *Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to the CDIAC explaining the reasons why the local agency determined to sell the bonds at private sale or on a negotiated basis instead of at public sale.*

[2] *This fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter or purchaser of the issue. The fee is administratively set by the Commission. The current fee schedule may be obtained from CDIAC.*

FINANCING PARTICIPANTS (Firm Name)

FINANCIAL ADVISOR: McDonald Partners, Inc.

LEAD UNDERWRITER/PURCHASER: Merrill Lynch, Pierce, Fenner & Smith Incorporated

BOND COUNSEL: Orrick, Herrington & Sutcliffe LLP

TRUSTEE/PAYING AGENT: The Bank of New York Trust Company, N.A.

OFFICE LOCATION (City/State)

Alamo, California

Los Angeles, California

Los Angeles, California

San Francisco, California

MATURITY SCHEDULE

☐ Attached ☒ Included in Official Statement

MATURITY STRUCTURE

☒ Serial (S) ☐ Term (T)

☐ Serial and term bonds or two or more term (B)

FINAL MATURITY DATE: February 15, 2028

FIRST OPTIONAL CALL DATE: See Official Statement

SENIOR/SUBORDINATE STRUCTURE ☐ Yes ☒ No

OFFICIAL STATEMENT/OFFERING MEMORANDUM:
☒ **Enclosed** ☐ **None prepared**

WAS THE ISSUE INSURED OR GUARANTEED?
☒ No
☐ Bond Insurance (I)
☐ Letter of Credit (L)
☐ State Intercept Program (T)
☐ Other (O)

GUARANTOR: _____

ENHANCEMENT EXPIRATION DATE: _____

INDICATE CREDIT RATING:

(For example, "AAA" or "Aaa"
☐ Not Rated
☒ Rated
Standard & Poor's: AA-
Fitch: AA-
Moody's: Aa3
Other: _____

REASON FOR NEGOTIATED REFUNDINGS
If the issue is a negotiated refunding, indicate the reason(s) why the bonds were issued at a private or negotiated versus a competitive sale.
☐ (1) Timing of the sale provided more flexibility than a public sale
☐ (2) More cost savings were expected to be realized than a public sale
☐ (3) More flexibility in debt structure was available than a public sale
☐ (4) Issuer able to work with participants familiar with issue/r than a public sale
☐ (5) All of the above
☐ (6) Other (please specify) _____

IS THE INTEREST ON THE DEBT EXEMPT FROM TAXATION?

Under State Law: ☐ No (taxable) ☒ Yes (tax-exempt)
Under Federal Law: ☐ No (taxable) ☒ Yes (tax-exempt)
If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax? ☐ Yes ☒ No

INTEREST TYPE: ☒ NIC ☐ TIC ☐ Variable

INTEREST COST: 4.087390%
(Both Capital Appreciation Bonds and Current Interest Bonds)

CAPITAL APPRECIATION BOND: ☐ Yes ☒ No

ISSUANCE COSTS AND FEES: May be Obtained from Issuer

A) Management Fee	$
B) Total Takedown	$
C) Underwriter Expenses	$
Underwriter Spread or Discount	$
D) Bond Counsel	$
E) Disclosure Counsel	$
F) Financial Advisor	$
G) Rating Agency	$
H) Credit Enhancement	$
I) Trustee Fee	$
J) Other Expenses	$
Total Issuance Costs	$
K) ORIGINAL ISSUE PREMIUM	$
L) ORIGINAL ISSUE DISCOUNT	$
M) NET ORIGINAL ISSUE DISCOUNT/PREMIUM	$

FOR OFFICE USE ONLY

FEE: $_____

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

CERTIFICATE OF SECRETARY

I, Sonia Orozco, Secretary of the Redevelopment Agency of the City of Roseville, HEREBY CERTIFY that attached hereto as Exhibit A is a true and complete copy of Resolution No. 22-06, duly adopted by the Board of Directors of the Agency at a meeting duly called and duly held on December 6, 2006, at which meeting a quorum was present and acting throughout, and that such resolution has not been amended, modified, supplemented, rescinded or repealed and is in full force and effect in the form attached hereto as Exhibit A.

IN WITNESS WHEREOF, I have hereunto set my hand this 6th day of February, 2007.

Sonia Orozco
Secretary

Exhibit A

RESOLUTION NO. 22-06

REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE

RESOLUTION NO. 22-06

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE APPROVING, AUTHORIZING AND DIRECTING THE EXECUTION AND DELIVERY OF A JOINT EXERCISE OF POWERS AGREEMENT RELATING TO THE ROSEVILLE NATURAL GAS FINANCING AUTHORITY AND CERTAIN OTHER MATTERS RELATING THERETO

WHEREAS, the Redevelopment Agency of the City of Roseville (the "Agency") is a public body corporate and politic duly organized and existing under the Community Development Law (commencing with Section 33000 of the California Health and Safety Code); and the California Government Code; and

WHEREAS, pursuant to the Joint Powers Act (capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Exhibit A hereto) two or more public agencies may enter into an agreement to establish an agency to exercise any power common to the contracting parties; and

WHEREAS, the Agency is a "public agency" as that term is defined in Section 6500 of the Joint Powers Act; and

WHEREAS, each of the City of Roseville (the "City") and the Agency is empowered to promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base; and

WHEREAS, the City owns and operates the Electric System for supplying the inhabitants, businesses and industries within the City with electricity; and

WHEREAS, certain electric generating units which are or will be part of the Electric System use natural gas as fuel; and

WHEREAS, the Electric System provides electricity at rates which promote economic development within the City; and

WHEREAS, it is necessary and in the public interest to provide natural gas to the Electric System on terms which allow such utility to continue to charge rates which promote economic development within the City; and

WHEREAS, it is the desire of the Agency to establish the Roseville Natural Gas Financing Authority as a separate entity under the Joint Powers Act to undertake projects and programs that promote economic development within the City, including implementing projects and programs to assist the City in procuring natural gas for the Electric System to be used as fuel for electric generating units which are or will be part of the Electric System; and

WHEREAS, such projects and programs may include, among other things, the Authority's issuance of Bonds pursuant to any applicable Bond Law, providing Credit Enhancement and Liquidity Support for Bonds, the entry into Public Finance Contracts, the entry into Gas Agreements, and the entry into Risk Management Contracts;

WHEREAS, the Agency has determined that it is to the Agency's advantage and in the public interest of inhabitants of the areas served by the Agency to enter into the Joint Exercise of Powers Agreement relating to the Roseville Natural Gas Financing Authority with the City in order to establish an agency which will undertake programs and projects as described above.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE AS FOLLOWS:

Section 1. The Board hereby finds and determines that the recitals contained hereinabove are true and correct.

Section 2. The Board hereby approves the Joint Exercise of Powers Agreement relating to the Roseville Natural Gas Financing Authority (the "Agreement") with the City of Roseville in substantially the same form as the copy which is attached hereto as Exhibit B.

Section 3. The Board hereby authorizes the Executive Director of the Agency to execute the Agreement for, and on behalf of, the City and the Secretary of the Agency is hereby authorized to attest thereto.

Section 4. The Board hereby authorizes the Executive Director of the Agency to make whatever nonsubstantive, administrative and/or text changes, upon advice of counsel, to the form of the Agreement attached hereto as Exhibit B as such officer shall approve, such approval to be conclusively evidenced by the execution of the Agreement.

Section 5. The Board hereby authorizes the Executive Director, the Secretary and all other proper officers and officials of the Agency to execute and deliver such other agreements, documents and certificates, and to perform such other acts and deeds, as may be necessary or convenient to effect the purposes of this Resolution and the transactions herein authorized.

Section 6. This Resolution shall take effect from and after its adoption, and thereupon and thereafter the same shall be in full force and effect.

PASSED AND ADOPTED by the Board of Directors of the Redevelopment Agency of the City of Roseville this 6 th day of December, 2006, by the following vote on roll call:

AYES MEMBERS: Gray, Allard, Roccucci, Garbolino, Rockholm

NOES MEMBERS: None

ABSENT MEMBERS: None

CHAIR

ATTEST:

Secretary

The foregoing instrument is a correct copy of the original on file in this office.

ATTEST: _____
City Clerk of the City of Roseville, California

DEPUTY CLERK

Rev. Agency
Rec 12-06

EXHIBIT A

DEFINITION OF CERTAIN TERMS

The following terms shall have the meanings below for all purposes of the attached Resolution.

"Bond Act" means Article 2 and Article 4 of the Joint Powers Act, and any other State legislation whether currently in force or hereafter enacted, which authorizes the Authority to issue Bonds.

"Bonds" means bonds, notes, or other evidences of indebtedness issued by the Authority, or certificates of participation in leases or other agreements executed and delivered at the direction of the Authority, regardless of their structure, name or the statutory authority for their issuance.

"Credit Enhancement" means a municipal bond insurance policy, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of the principal of and interest on Bonds of the Authority.

"Electric System" means the municipal electric utility owned and operated by the City, including all electric generation, distribution, transmission, administrative and other properties and facilities, and all contract rights, currently included in such municipal electric utility or hereafter acquired.

"Gas Agreement" means an agreement pursuant to which the Authority purchases natural gas or sells natural gas.

"Indenture" mean an instrument providing for the issuance of Bonds and specifying the terms and conditions thereof and includes an indenture of trust, a trust agreement, a resolution, an order or any other instrument or proceeding.

"Joint Powers Act" means the Joint Exercise of Powers Act constituting Chapter 5 of Division 7 of Title 1 of the California Government Code.

"Liquidity Support" means a letter of credit, line of credit, standby bond purchase agreement or other surety or guarantee instrument guaranteeing, subject to the conditions thereof, the payment when due of the purchase price of Bonds tendered for purchase in accordance with the applicable Indenture. A Credit Enhancement may also constitute a Liquidity Support if it guarantees the payment of the purchase price of tendered Bonds as well as the principal of and interest on Bonds.

"Public Finance Contract" means a contract to place Bonds or investments of the Authority on the interest rate, currency, cash-flow or other basis desired by the Authority, including an interest rate swap agreement, a currency swap agreement, a forward payment

conversion agreement, a futures agreement, a contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, a contract to exchange cash flows or a series of payments, and a contract to hedge payment, currency, rate, spread or similar exposure, including interest rate floors and caps, swaptions, options, puts and calls authorized by Section 5920 *et seq.* of the California Government Code or any other legislative authority whether currently in effect or hereafter enacted.

"Risk Management Contract" means a forward contract, a futures contract, a put, call or swap agreement, an option or other contract or arrangement to place the price of natural gas purchased or sold by the Authority on the basis desired by the Authority.

EXHIBIT "B"

JOINT EXERCISE OF POWERS AGREEMENT

By and Between

CITY OF ROSEVILLE

and

REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE

Dated as of November 1, 2006

Relating to the

ROSEVILLE NATURAL GAS FINANCING AUTHORITY

JOINT EXERCISE OF POWERS AGREEMENT

THIS JOINT EXERCISE OF POWERS AGREEMENT, dated as of November 1, 2006, by and between the City of Roseville, a municipal corporation and a chartered city duly organized and existing under the laws of the State of California and its Charter, and the Redevelopment Agency of the City of Roseville, a public body corporate and politic duly organized and existing under the laws of the State of California:

WITNESSETH

WHEREAS, pursuant to the Joint Powers Act (capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Section 1 hereof) two or more public agencies may enter into an agreement to establish an agency to exercise any power common to the contracting parties; and

WHEREAS, each of the Parties is a "public agency" as that term is defined in Section 6500 of the Joint Powers Act; and

WHEREAS, each of the Parties is empowered to promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base; and

WHEREAS, the City owns and operates the Electric System for supplying the inhabitants, businesses and industries within the City with electricity; and

WHEREAS, certain electric generating units which are or will be part of the Electric System use natural gas as fuel; and

WHEREAS, the Electric System provides electricity at rates which promote economic development within the City; and

WHEREAS, it is necessary and in the public interest to provide natural gas to the Electric System on terms which allow such utility to continue to charge rates which promote economic development within the City; and

WHEREAS, it is the desire of the Parties to establish the Roseville Natural Gas Financing Authority as a separate entity under the Joint Powers Act and this Agreement to undertake projects and programs that promote economic development within the City, including projects and programs to assist the City in procuring natural gas to be used as fuel for electric generating units which are or will be part of the Electric System; and

NOW, THEREFORE, the Parties, for and in consideration of the mutual promises and agreements herein contained, do agree as follows:

SECTION 1. DEFINITIONS.

Unless the context otherwise requires, the following terms shall have the meanings set forth below for all purposes of this Agreement:

"Agreement" means this Joint Exercise of Powers Agreement, as the same may be amended and supplemented form time to time.

"Authority" means the Roseville Natural Gas Financing Authority created and established pursuant to this Agreement.

"Board" means the Board of Directors established as the governing body of the Authority pursuant to Section 4(B).

"Bond Act" means Article 2 and Article 4 of the Joint Powers Act, and any other State legislation whether currently in force or hereafter enacted, which authorizes the Authority to issue Bonds.

"Bonds" means bonds, notes, or other evidences of indebtedness issued by the Authority, or certificates of participation in leases or other agreements executed and delivered at the direction of the Authority, regardless of their structure, name or the statutory authority for their issuance.

"Brown Act" means the Ralph M. Brown Act, constituting Sections 54950 through 54963 of the California Government Code.

"City" means the City of Roseville, California.

"Chair" means the Chair of the Board pursuant to Section 4 (C)(1).

"Credit Enhancement" means: (i) with respect to Bonds, a municipal bond insurance policy, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of the principal of and interest on such Bonds; and (ii) with respect to a Gas Agreement, a Public Finance Contract and a Risk Management Contract, a financial guarantee insurance policy, a letter of credit, a line of credit or other surety or guarantee instrument guaranteeing the payment when due of all or any portion of the payments under such Gas Agreement, Public Finance Contract or Risk Management Contract.

"Director" means a member of the Board in office pursuant to Section 4(B).

"Electric System" means the municipal electric utility owned and operated by the City, including all electric generation, distribution, transmission, administrative and other properties and facilities, and all contract rights, currently included in such municipal electric utility or hereafter acquired.

"Executive Director" means the Executive Director of the Authority pursuant to Section 4(C)(1).

"Fiscal Year" means the fiscal year of the Authority being, until changed by resolution of the Board, the period from July 1 to and including the following June 30 except for the first Fiscal Year which shall be the period from the effective date of this Agreement to June 30, 2007.

"Gas Agreement" means an agreement pursuant to which the Authority purchases natural gas or sells natural gas.

"Indenture" means an instrument providing for the issuance of Bonds and specifying the terms and conditions thereof and includes an indenture of trust, a trust agreement, a resolution, an order or any other instrument or proceeding.

"Joint Powers Act" means the Joint Exercise of Powers Act constituting Chapter 5 of Division 7 of Title 1 of the California Government Code.

"Liquidity Support" means a letter of credit, line of credit, standby bond purchase agreement or other surety or guarantee instrument guaranteeing, subject to the conditions thereof, the payment when due of the purchase price of Bonds tendered for purchase in accordance with the applicable Indenture. A Credit Enhancement with respect to Bonds may also constitute Liquidity Support if it guarantees the payment of the purchase price of tendered Bonds as well as the principal of and interest on Bonds.

"Party" means each of the City and the Redevelopment Agency.

"Public Finance Contract" means a contract to place Bonds or investments of the Authority on the interest rate, currency, cash-flow or other basis desired by the Authority, including an interest rate swap agreement, a currency swap agreement, a forward payment conversion agreement, a futures agreement, a contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, a contract to exchange cash flows or a series of payments, and a contract to hedge payment, currency, rate, spread or similar exposure, including interest rate floors and caps, swaptions, options, puts and calls authorized by Section 5920 *et seq.* of the California Government Code or any other legislative authority whether currently in effect or hereafter enacted.

"Redevelopment Agency" means the Redevelopment Agency of the City of Roseville.

"Risk Management Contract" means a forward contract, a futures contract, a put, call or swap agreement, an option or other hedging contract or arrangement to place the price of natural gas purchased or sold by the Authority on the basis desired by the Authority.

"Secretary" means the Secretary of the Board pursuant to Section 4 (C)(1).

"State" means the State of California.

"Treasurer" means the treasurer and auditor of the Authority pursuant to Section 4 (C)(2).

"Vice Chair" means the Vice Chair of the Board pursuant to Section 4 (C)(1).

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neutral genders. Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including districts, agencies and other public bodies, as well as natural persons. Unless otherwise indicated, references in this Agreement to paragraphs, subsections, and Sections are to such paragraphs, subsections, and Sections of this Agreement. Unless the context requires otherwise, the terms "herein," "hereof," "hereunder" and any similar terms, as used in this Agreement, shall refer to this Agreement as a whole and not to any particular provisions of this Agreement. Defined terms shall include any variant of the terms set forth in this Section. The term "including" shall be construed to mean "including without being limited to."

SECTION 2. PURPOSE.

It is the purpose of this Agreement to establish, pursuant to the provisions of the Joint Powers Act, an agency for and with the purpose of undertaking projects and programs that promote economic development within the City, including the promotion of opportunities for the creation or retention of employment, the stimulation of economic activity, and an increase of the tax base. Such projects and programs include assisting the City in procuring natural gas to be used as fuel for electric generating units which are part of the Electric System. Such assistance may include, among other things, the Authority's issuance of Bonds pursuant to any applicable Bond Law, providing Credit Enhancement and Liquidity Support for Bonds, the entry into Gas Agreements, Public Finance Contracts and/or Risk Management Contracts and providing Credit Enhancement for all or any portion of such Gas Agreements, Public Finance Contracts and Risk Management Contracts. Such purpose will be accomplished and said powers exercised in the manner hereinafter set forth.

SECTION 3. TERM.

This Agreement shall become effective in accordance with Section 18 hereof as of the date first above written and shall continue in full force and effect for a period of sixty (60) years from such date, or until such earlier time as it is terminated by a writing signed by all the Parties; provided, however, that, notwithstanding the foregoing, this Agreement shall not expire or be terminated until the date on which: (i) all Bonds issued by the Authority shall have been paid or deemed paid in accordance with the applicable Indenture; (ii) all contracts and agreements of the Authority, including all Gas Agreements, Public Finance Contracts, Risk Management Contracts, contracts and agreements relating to Credit Enhancement and Liquidity Support, (a) shall have expired or been otherwise terminated and all amounts owed by the Authority thereunder have been paid or (b) the Authority's obligations thereunder have been transferred or assigned to another party in accordance with the terms of such contracts and agreements; and (iii) all other indebtedness and liabilities incurred by the Authority shall have been paid.

SECTION 4. THE AUTHORITY.

A. CREATION OF AUTHORITY.

Pursuant to the Joint Powers Act, there is hereby created a public entity, separate and apart from the Parties, to be known as the Roseville Natural Gas Financing Authority. The Authority's debts, liabilities and obligations do not and will not constitute debts, liabilities or obligations of either Party; provided that nothing in this Agreement shall limit a Party's authority or ability to enter into separate agreements with the Authority pursuant to which the Party agrees to make payments in connection with debts, liabilities or obligations of the Authority, including Bonds, Gas Agreements, Public Finance Contracts, Risk Management Contracts, contracts and agreements relating to Credit Enhancement and Liquidity Support.

B. BOARD OF DIRECTORS.

(1) The governing body of the Authority shall be a Board of Directors which shall consist of the members of the City Council of the City. The Board shall be the administering agency of this Agreement and, as such, shall be vested with all the powers of the Authority and shall execute and administer this Agreement in accordance with the purposes set forth herein.

(2) Directors shall not receive any compensation for serving as Directors but shall be entitled to reimbursement for any expenses actually incurred in connection with serving as a Director if the Board shall determine that such expenses shall be reimbursed and there are unencumbered funds available for such purpose.

C. OFFICERS; DUTIES; OFFICIAL BONDS.

(1) The Mayor of the City shall be the Chair of the Board, the Mayor Pro Temporare shall be the Vice Chair of the Board, the City Clerk of the City shall be the Secretary of the Authority and the City Manager shall be the Executive Director of the Authority. Each of the Chair, the Vice Chair, the Executive Director and any other officer of the Authority authorized by Board resolution is authorized to execute any and all Bonds, contracts, agreements, instruments and other documents on behalf of, and in the name of, the Authority. The Secretary shall attest to the signature of an officer on any such Bond, contract, agreement, instrument and other document when required to do so by Board resolution and shall perform the normal duties of the secretary of an organization such as the Authority, including maintaining custody of the records of the Board and the Authority. The Executive Director shall be the chief executive officer of the Authority and as such implement the policy decisions and the directors of the Board. The Chair, the Vice Chair, the Executive Director and the Secretary shall have such other powers, duties and responsibilities as shall be determined by the Board.

(2) The Treasurer of the City shall serve as both treasurer and auditor of the Authority. The Treasurer shall have the powers, duties and responsibilities specified in the Joint Powers Act for the treasurer and auditor of a separate entity established thereunder and shall comply with all of the duties and responsibilities of the offices of treasurer and auditor of a separate entity formed under the Joint Powers Act set forth in the Joint Powers Act.

Petra Ogiony
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pg 12

Subject to the provisions of each Indenture providing for a trustee or other fiscal agent, the Treasurer is designated as the depositary of the Authority to have custody of all money of the Authority from whatever source derived. Subject to the provisions of each Indenture and any contracts authorized by the Board for the lease, operation or custody of Authority property, the Treasurer is designated as the public officer or person who has charge of, handles, and has access to all property of the Authority.

The Treasurer shall file an official bond with the Secretary of the Authority in the amount of $1,000 or such greater amount as shall be specified by the Board. If and to the extent permitted by law, the Treasurer may satisfy this requirement by filing an official bond in at least said amount obtained in connection with another public office so long as such official bond includes coverage of the Treasurer as such officer of the Authority.

(3) The Board shall have the power to appoint from time to time such other officers, agents, employees, counsel and accountants, and to specify their respective powers, duties and responsibilities, as it may deem necessary or convenient.

(4) The Board shall have the power, to the extent permitted by the Joint Powers Act or any other applicable law, to delegate any of its functions to one or more Directors, officers, employees or agents of the Authority, and to cause any of said Directors, officers, employees or agents to take any actions for and in the name and on behalf of the Board or the Authority.

D. MEETINGS OF THE BOARD.

(1) Ralph M. Brown Act.

All meetings of the Board, including regular, adjourned regular, special, and adjourned special meetings shall be scheduled, called, noticed, held and conducted in accordance with the provisions of the Brown Act.

(2) Regular Meetings.

The Board shall hold at least one regular meeting during each Fiscal Year. The date, hour and place of the holding of the regular meetings shall, if requested by a Party, be filed with such Party.

(3) Special Meetings.

Special meetings of the Board for any purpose or purposes may be called at any time by the Chair or a majority of Directors then in office. Special meetings of the Board may be held at any time specified in the notice of the meeting which is consistent with the notice and other provisions of the Brown Act.

(4) Minutes.

The Secretary of the Authority shall cause to be kept minutes of the regular, adjourned regular, special, and adjourned special meetings of the Board and shall, as soon as possible after each meeting, cause a copy of the minutes to be delivered to each Director.

(5) Quorum.

A majority of the Directors then in office, but no less than three, shall constitute a quorum for the transaction of business. No action may be taken by the Board except upon the affirmative vote of a majority of the Directors then in office, except that less than a quorum may adjourn a meeting to another time and place.

E. RULES AND REGULATIONS.

The Authority may adopt, from time to time, by resolution of the Board, such rules and regulations for the conduct of its meetings and affairs as the Board determines are necessary or convenient.

SECTION 5. POWERS.

The Authority shall have any and all powers necessary or convenient in accomplishing its purposes (as set forth in Section 2) which are authorized by law to each of the Parties hereto and separately to the public entity herein created, including all powers which are incidental to express powers. All such powers, whether common to the Parties or separately conferred by law upon the Authority, are specified as powers of the Authority.

Without limiting the generality of the preceding paragraph, the Authority is hereby authorized, in its own name, to do any and all of the following: to sue and be sued; to make and enter into contracts, including but not limited to (i) Gas Agreements, (ii) Risk Management Contracts, (iii) Public Finance Contracts, and (iv) contracts and agreements relating to Credit Enhancement and/or Liquidity Support for Bonds, Gas Agreements, Public Finance Contracts and Risk Management Contracts; to employ agents, consultants, attorneys and employees; to acquire, construct, maintain and operate (or to provide for maintenance and operation of) any buildings, works or improvements; to acquire, hold or dispose of property, whether real or personal, tangible or intangible, wherever located; to issue Bonds and to pledge any property (whether real or personal, tangible or intangible and/or revenues as security for such Bonds; and to receive gifts, contributions and donations of property, funds, services and other forms of assistance from persons, firms, corporations and any governmental entity.

SECTION 6. MANNER OF EXERCISING POWERS.

To the extent required by Section 6509 of the Joint Powers Act, the manner in which the Authority shall exercise its powers and perform its duties is and shall be subject to the restrictions upon the manner in which the City could exercise such powers and perform such duties. The manner in which the Authority shall exercise its powers and perform its duties shall not be subject to any restrictions applicable to the manner in which any other public agency could exercise such powers or perform such duties, whether such agency is a Party to this Agreement or not.

SECTION 7. DISPOSITION OF ASSETS.

At the end of the term hereof or upon the earlier termination of this Agreement as set forth in Section 3, after payment of all expenses and liabilities of the Authority, all property of the Authority both real and personal shall automatically vest in the Parties in equal shares and

shall thereafter remain the sole property of the respective Parties; provided, however, that any surplus money on hand shall be returned in proportion to the contributions made by the Parties and if no contributions have been made in proportion to the payments made by each of the Parties to or for the account of the Authority in connection with its projects and programs, including payments with respect to Bonds, Gas Agreements, Public Finance Contracts, Risk Management Contracts, agreements relating to Credit Enhancement and/or Liquidity Support for Bonds, Gas Agreements, Public Finance Contracts and Risk Management Contracts; and any other agreements or obligations of the Authority.

SECTION 8. BONDS.

A. ISSUANCE OF BONDS.

The Authority may, when authorized by any Bond Act and by resolution of the Board, issue Bonds for the purpose of raising funds for the exercise of its powers or otherwise to carry out its purposes under this Agreement. Said Bonds may have such terms and conditions as shall be authorized by the Board.

B. BONDS SPECIAL OBLIGATIONS.

The Bonds, including the principal, redemption price and purchase price (to the extent payable by the Authority pursuant to the applicable Indenture(s) upon tender for purchase in accordance with the provisions of such Indenture(s)) and the interest thereon, shall be special obligations of the Authority payable solely from, and secured solely by, the revenues, funds and other assets pledged therefor under the applicable Indenture(s) and shall not constitute a charge against the general credit of the Authority. The Bonds shall not be secured by a legal or equitable pledge of, or lien or charge upon or security interest in, any property of the Authority or any of its income or receipts except the property, income and receipts pledged therefor under the applicable Indenture(s). Neither the faith and credit nor the taxing power of the State of California, the City, the Redevelopment Agency or any other public agency shall be pledged to the payment of the principal, redemption price or purchase price of, or the interest on, the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the State or any political subdivision thereof, including the City and the Redevelopment Agency, to levy or pledge any form of taxation or to make any appropriation for the payment of the Bonds. The payment of the principal, redemption price or purchase price of, or interest on, the Bonds shall not constitute a debt, liability or obligation of the State or any public agency, including the City and the Redevelopment Agency (other than the special obligation of the Authority as provided in the applicable Indenture(s)).

No covenant or agreement contained in any Bond or Indenture shall be deemed to be a covenant or agreement of any Director, officer, agent or employee of the Authority in his individual capacity and no Director or officer of the Authority executing a Bond shall be liable personally on such Bond or be subject to any personal liability or accountability by reason of the issuance of such Bond.

SECTION 9. PUBLIC FINANCE CONTRACTS AND RISK MANAGEMENT CONTRACTS.

In the exercise of a common power of the Parties or a power conferred upon the Authority by any law (whether currently in force or hereafter enacted) as an entity separate from the Parties, and when authorized by resolution of the Board, the Authority may enter into Public Finance Contracts and/or Risk Management Contracts with respect to interest rates, natural gas prices or other matters relating to any of the Authority's projects, programs, assets and/or liabilities and Credit Enhancement agreements in connection with any or all of such agreements. Such Public Finance Contracts, Risk Management Contracts and Credit Enhancement agreements may have such terms and conditions as shall be authorized by the Board.

SECTION 10. ACCOUNTS AND REPORTS.

A. BOOKS AND RECORDS.

All funds of the Authority shall be strictly accounted for in books of account maintained by, or on behalf of, the Authority which shall report all receipts and disbursements of Authority funds. The Authority shall establish and maintain such funds and accounts as may be required by good accounting practice and by each Indenture for outstanding Bonds (to the extent such duties are not assigned to trustees under the Indentures). The books and records of the Authority shall be open to inspection at all reasonable times by each Party.

The Authority shall require that each Indenture provide that the trustee appointed thereunder shall establish suitable funds and furnish suitable financial reports in connection with the funds held by such trustee.

B. AUDIT.

The Treasurer shall cause an independent audit to be made of the books of account and financial statements of the Authority, and shall cause such financial statements and audit to be filed and reported, in compliance with the requirements of the Joint Powers Act. Any costs of the audit, including contracts with, or employment of, certified public accountants or public accountants in making an audit pursuant to this Section shall be borne by the Authority and, to the extent not paid from funds provided pursuant to one or more of the Authority's projects or programs, shall be a charge against any unencumbered funds of the Authority available for that purpose.

SECTION 11. FUNDS.

Subject to the applicable provisions of each Indenture, which may provide for a trustee to receive, have custody of and disburse funds that constitute Authority funds, the Treasurer of the Authority shall receive, have the custody of and disburse Authority funds pursuant to accounting procedures approved by the Board, and shall make the disbursements necessary or convenient in carrying out any of the provisions or purposes of this Agreement.

SECTION 12. NOTICES.

Notices and other communications hereunder to a Party shall be sufficient if delivered: with respect to the City, to the City Clerk of the City; and if to the Redevelopment Agency, to the secretary of the Redevelopment Agency.

SECTION 13. INDEMNIFICATION.

To the full extent permitted by law, the Board may authorize indemnification by the Authority of any person who is or was a Director, or an officer, employee or other agent of the Authority, and who was or is a party or is threatened to be made a party to a proceeding by reason of the fact that such person is or was such a Director, officer, employee or other agent of the Authority, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Authority and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful and, in the case of any action by or in the right of the Authority, acted with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

SECTION 14. CONTRIBUTIONS AND ADVANCES.

Without limiting the power of the Authority to accept contributions from persons other than the Parties, contributions or advances of public funds and of the use of personnel, equipment or property may be made to the Authority by the Parties hereto for any of the purposes of this Agreement. Any advance of funds by a Party may be made subject to repayment, and in such case shall be repaid, in the manner agreed upon by the Authority and the Party making such advance.

SECTION 15. IMMUNITIES.

All of the privileges and immunities from liabilities, exemptions from laws, ordinances and rules, all pension, relief, disability, workers' compensation, and other benefits which apply to the activity of officers, agents, employees or other representatives of a Party when performing their respective functions within the territorial limits of their public agency, shall apply to them to the same degree and extent while engaged as a Director, officer, agent, employee or other representative of the Authority or while engaged in the performance of any of their functions or duties under the provisions of this Agreement whether within or outside of the boundaries of the applicable Party.

SECTION 16. CONSULTANTS AND ADVISORS.

The Authority may employ the services of independent counsel, including bond and other special counsel, financing, engineering, utility, natural gas and other consultants and advisors, and accountants and auditors in connection with the programs and projects undertaken pursuant to this Agreement, including the issuance of Bonds and the entry into Gas Agreements, Public Finance Contracts, Risk Management Contracts, and Credit Enhancement agreements in connection therewith. The fees and expenses of such counsel, consultants, advisors, accountants and auditors, and the expenses of the Authority in connection with such programs and projects,

shall, to the extent not paid from funds received pursuant to one or more agreements relating to such projects and programs, be paid from the proceeds of Bonds or any other unencumbered funds of the Authority available for such purpose.

SECTION 17. AMENDMENTS.

This Agreement shall not be amended, modified, or altered except by a written instrument duly executed by each of the Parties.

SECTION 18. EFFECTIVENESS.

This Agreement shall become effective and be in full force and effect and a legal, valid and binding obligation of each of the City and the Redevelopment Agency at 9:00 a.m., California time, on the first date as of which each Party shall have received from the other an executed counterpart of this Agreement, together with a certified copy of a resolution of the governing body of such Party approving this Agreement and the execution and delivery hereof.

SECTION 19. PARTIAL INVALIDITY.

If any one or more of the terms, provisions, promises, covenants or conditions of this Agreement shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of this Agreement shall not be affected thereby, and shall be valid and enforceable to the fullest extent permitted by law.

SECTION 20. SUCCESSORS.

This Agreement shall be binding upon and shall inure to the benefit of the successors of the Parties hereto. Except to the extent expressly provided herein, no Party may assign any right or obligation hereunder without the consent of the other Party.

SECTION 21. MISCELLANEOUS.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The section headings herein are for convenience only and are not to be construed as modifying or governing the language in the section referred to.

Each of the Parties represents and warrants that it possesses the common powers referred to in the recitals hereof. Nothing in this Agreement shall be construed as a limitation on the rights of the Parties to exercise the common powers referred to in the recitals hereof outside of this Agreement.

This Agreement is made in the State, under the Constitution and laws of the State and is to be construed as a contract made and to be performed in the State.

This Agreement is the complete and exclusive statement of the agreement between the Parties with respect to the subject matter hereof, and this Agreement supersedes and

merges all prior proposals, understandings, and other agreements, whether oral, written, or implied in conduct, between the Parties relating to the subject matter of this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested to by their proper officers thereunto duly authorized, as of the day and year first above written.

Dated: _____2006

CITY OF ROSEVILLE

By: _____
City Manager

Approved as to form:

_____
City Attorney

Attest:

By: _____
City Clerk

Rev. Agreement
Dec 22-08
BJ/9

Dated: _____, 2006

REDEVELOPMENT AGENCY OF THE
CITY OF ROSEVILLE

By: _____
Executive Director

Approved as to form:

_____
Agency Counsel

Attest:

By: _____
Agency Secretary

Orig Agmt
Dec 22 06
pg 30

REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE
RESOLUTION NO. 23-06

APPROVING A PROFESSIONAL SERVICES AGREEMENT BETWEEN THE REDEVELOPMENT AGENCY OF THE CITY OF ROSEVILLE AND BENDER ROSENTHAL, INC. AND AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE IT ON BEHALF OF THE REDEVELOPMENT AGENCY

WHEREAS, a professional services agreement regarding appraisal services for the SureWest properties, between the Redevelopment Agency of the City of Roseville and Bender Rosenthal, Inc. has been reviewed by the Redevelopment Agency;

NOW, THEREFORE, BE IT RESOLVED by the Redevelopment Agency of the City of Roseville that said agreement is approved and that the Executive Director is authorized to execute it on behalf of the Redevelopment Agency.

PASSED AND ADOPTED by the Redevelopment Agency of the City of Roseville this 6th day of December, 2006, by the following vote on roll call:

AYES AGENCY MEMBERS: Gray, Allard, Roccucci, Garbolino, Rockholm

NOES AGENCY MEMBERS: None

ABSENT AGENCY MEMBERS: None

CHAIR

ATTEST:

Secretary

Form **8038-G**
(Rev. November 2000)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Obligations

▶ Under Internal Revenue Code section 149(e)
▶ See separate Instructions.
Caution: *If the issue price is under $100,000, use Form 8038-GC.*

OMB No. 1545-0720

Part I Reporting Authority

If **Amended Return,** check here ▶ ☐

1 Issuer's name
Roseville Natural Gas Financing Authority

2 Issuer's employer identification number
94 6000409

3 Number and street (or P.O. box if mail is not delivered to street address)
311 Vernon Street

Room/suite

4 Report number
3 01

5 City, town, or post office, state, and ZIP code
Roseville, California 95678

6 Date of issue
2/6/2007

7 Name of issue
Roseville Natural Gas Financing Authority Gas Revenue Bonds, Series 2007

8 CUSIP number
777863AV3

9 Name and title of officer or legal representative whom the IRS may call for more information
Russ Branson, Treasurer

10 Telephone number of officer or legal representative
(916) 774-5320

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11	☐ Education	11	
12	☐ Health and hospital	12	
13	☐ Transportation	13	
14	☐ Public safety	14	
15	☐ Environment (including sewage bonds)	15	
16	☐ Housing	16	
17	☒ Utilities	17	224,804,116
18	☐ Other. Describe ▶	18	

19 If obligations are TANs or RANs, check box ▶ ☐ If obligations are BANs, check box ▶ ☐
20 If obligations are in the form of a lease or installment sale, check box ▶ ☐

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	2/15/2028	$ 224,804,116	$ 209,350,000	13.119 years	4.2214 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22	Proceeds used for accrued interest			22	0
23	Issue price of entire issue (enter amount from line 21, column (b))			23	224,804,116
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	1,625,797		
25	Proceeds used for credit enhancement	25	124,992		
26	Proceeds allocated to reasonably required reserve or replacement fund	26	0		
27	Proceeds used to currently refund prior issues	27	0		
28	Proceeds used to advance refund prior issues	28	0		
29	Total (add lines 24 through 28)			29	1,750,789
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)			30	223,053,327

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

31 Enter the remaining weighted average maturity of the bonds to be currently refunded ▶ _____ years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded ▶ _____ years
33 Enter the last date on which the refunded bonds will be called ▶ _____
34 Enter the date(s) the refunded bonds were issued ▶

Part VI Miscellaneous

35	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35	
36a	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a	10,391,964
b	Enter the final maturity date of the guaranteed investment contract ▶ 2/15/2028		
37	Pooled financings: **a** Proceeds of this issue that are to be used to make loans to other governmental units	37a	

b If this issue is a loan made from the proceeds of another tax-exempt issue, check box ▶ ☐ and enter the name of the issuer ▶ _____ and the date of the issue ▶ _____

38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box ▶ ☐
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box ▶ ☐
40 If the issuer has identified a hedge, check box ▶ ☐

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

W. Craig Robinson 2/6/2007
Signature of issuer's authorized representative — Date

W. Craig Robinson, Executive Director
Type or print name and title

For Paperwork Reduction Act Notice, see page 2 of the Instructions.

Cat. No. 63773S Form **8038-G** (Rev. 11-2000)

STANDARD
&POOR'S

Ratings Services

55 Water Street
New York, NY 10041-0003

February 5, 2007

Mr. Russ Branson
Finance-Director-Treasurer
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

Re: ***Roseville Natural Gas Financing Authority***
$213,000,000 Series 2007A-Tax Exempt, Gas Revenue Bonds

Dear Mr. Branson:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "AA-".

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information, if necessary, to maintain the rating. Please send all information to Chinelo Chidozie at Standard & Poor's Corporate Ratings, 55 Water Street, New York, NY 10041.

Standard & Poor's is pleased to have the opportunity to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Very truly yours,

Standard & Poor's Ratings Services,
a division of The McGraw-Hill Companies, Inc.

Arthur Simonson, RFS 2/5/07

Analytical Contact: Chinelo Chidozie
Phone: (212) 438-3076

STANDARD
&POOR'S

Standard & Poor's Ratings Services
Terms and Conditions
Applicable To
U.S. Corporate Ratings

Scope of Rating. The Company understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the Company's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the Company will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the Company or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the Company, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless the Company specifically requests that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the Company or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. As a matter of policy, Standard & Poor's publishes ratings for all public issues in the U.S. market and 144A issues with registration rights. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by the Company. The Company shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The Company also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the Company or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by the Company or its agents. Standard & Poor's reserves the right to withdraw the rating if the Company or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean information received by Standard & Poor's from the Company which has been marked "Proprietary and Confidential" or in respect of which Standard & Poor's has received from the Company specific written notice of its proprietary and confidential nature. Notwithstanding the foregoing, information disclosed by the Company shall not be deemed to be Confidential Information, and Standard & Poor's shall have no obligation to treat such information as Confidential Information, if such information (i) was substantially known by Standard & Poor's at the time of such disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by Standard & Poor's act) subsequent to such disclosure, (iv) is disclosed lawfully to Standard & Poor's by a third party subsequent to such disclosure, (v) is developed independently by Standard & Poor's without reference to the Confidential Information, (vi) is approved in

writing by the Company for public disclosure, or (vii) is required by law to be disclosed by the Company or Standard & Poor's provided that notice of such required disclosure is given to the Company. Commencing on the date hereof, Standard & Poor's will use Confidential Information only in connection with the assignment and monitoring of ratings and will not directly disclose any Confidential Information to any third party. Standard & Poor's may also use Confidential Information for research and modeling purposes provided that the Confidential Information is not presented in a way that can be directly tied to the Company. The Company agrees that the Confidential Information may be used to raise, lower, suspend, withdraw, place on CreditWatch, and change the Outlook assigned to any rating if the Confidential Information is not directly disclosed.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. The Company understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the Company and that the Company should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the Company or between Standard & Poor's and recipients of the rating. The Company understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The Company agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the Company or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the Company or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The Company acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Confidential Information", "Standard & Poor's Not an Advisor, Fiduciary, or Expert", and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

Moody's Investors Service

Harborside Financial Center Plaza Five
Suite 2400
Jersey City, New Jersey 07311-3988

February 6, 2007

Tom Habashi
Utility Director
City of Roseville
Roseville Electric
2090 Hilltop Circle
Roseville, CA 95747

Re: $209,350,000
Roseville Natural Gas Financing Authority
Gas Revenue Bonds, Series 2007

Dear Mr. Habashi:

We wish to inform you that our Rating Committee has assigned the rating of **Aa3/, with a stable outlook**, to the above captioned bonds. The long-term rating is based upon the credit quality of Merrill Lynch & Co. (Merrill), as guarantor of the of the obligations of Merrill Lynch Commodities, Inc. under the Agreement for Purchase and Sale of Natural Gas (GPA) and the Funding and Assignment Agreement, FSA, as provider of the Customer Insurance Policy Commitment and JPMorgan Chase Bank, National Association (JPMorgan) as commodity swap provider. The long-term rating of the bonds will be changed whenever the rating of Merrill, FSA or JPMorgan is changed. The rating is also based, in part, on the rating of Wachovia (Wachovia), which is providing the Forward Supply Agreement, and may be reviewed whenever the rating of Wachovia is changed.

In assigning our rating we relied on documents provided to us. In order to maintain our rating we must be provided with a set of requested documents as soon as possible and may require current financial and portfolio information on an ongoing basis. Bond Counsel will be provided with a list of required documents

If you have any questions regarding the rating or the information required to maintain the rating, please do not hesitate to contact me at (212) 553-7782. Thank you for your interest in our services.

Sincerely,

Gregory Lipitz

Gregory Lipitz
Vice President & Senior Analyst

FitchRatings

650 California Street, 8th Floor
San Francisco, CA 94108

T 415 732 5770 / 800 95 FITCH
www.fitchratings.com

January 19, 2007

Mr. Russ Branson
Director/ Treasurer
Roseville Natural Gas Financing Authority
311 Vernon Street
Roseville, CA 95678

Dear Mr. Branson:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed on the attached Notice of Rating Action.

Ratings assigned by Fitch are based on documents and information provided to us by issuers, obligors, and/or their experts and agents, and are subject to receipt of the final closing documents. Fitch does not audit or verify the truth or accuracy of such information.

It is important that Fitch be provided with all information that may be material to its ratings so that they continue to accurately reflect the status of the rated issues. Ratings may be changed, withdrawn, suspended or placed on Rating Watch due to changes in, additions to or the inadequacy of information.

Ratings are not recommendations to buy, sell or hold securities. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

The assignment of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement or other filing under U.S., U.K., or any other relevant securities laws.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,

Kathryn Masterson

Kathryn Masterson
Director
U.S. Public Finance

KM/dg

Enc: Notice of Rating Action
(Doc ID: 64566)

Notice of Rating Action

Bond Description	Rating Type	Action	Rating	Outlook/ Watch	Eff Date	Notes
Roseville Natural Gas Financing Authority (CA) gas rev bonds ser 2007A (gtd: Merrill Lynch & Co., Inc.)	Long Term	New Rating	AA-	RO:Sta	18-Jan-2007	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

CERTIFICATE OF
WACHOVIA BANK, NATIONAL ASSOCIATION

I, the undersigned officer of Wachovia Bank, National Association (the "Bank") HEREBY CERTIFY in connection with the Debt Service Forward Delivery Agreement by and among The Bank of New York Trust Company, N.A., Roseville Natural Gas Financing Authority (the "Issuer") and the Bank dated as of February 1, 2007 (the "Agreement") that the yield on the Agreement is at least equal to the yield offered by the Bank on the date the Bank offered to enter into the Agreement on reasonably comparable investment contracts offered to other persons, if any, funded from a source of funds other than gross proceeds of an issue of tax-exempt bonds and that, the amount of administrative costs expected to be paid by the Bank to third parties in connection with the Agreement is $0 plus the normal and customary fees of counsel to the Bank and other fees payable to any custodian or other party as described in the Agreement. For purposes of this certification, administrative costs include all brokerage or selling commissions paid by the Bank to third parties in connection with the Agreement, legal or accounting fees, investment advisory fees, recordkeeping, safekeeping, custody and other similar costs or expenses.

I further certify that (a) neither the Bank nor any related party has a material interest in the tax-exempt bonds being issued by the Issuer in connection with the purchase of the Agreement, (b) the Bank has not been afforded the opportunity to review offers to the Issuer from other providers before making this offer to the Issuer, (c) the Bank did not consult with any other potential provider about this offer, (d) this offer was determined without regard to any other formal or informal agreement, other than the Request for Debt Service Fund Forward Delivery Agreement that the Bank has with the Issuer or any other person (whether or not in connection with the bonds being issued by the Issuer), (e) the bid was not submitted solely as a courtesy to the Issuer or to any other person for purposes of satisfying the bidding requirements of Section 1.148-5(d)(6)(iii)(B)(1) or (2) of the U.S. Treasury Regulations relating to the yield and valuation of investments in connection with tax-exempt bonds, and (f) the Bank has established an industry reputation as a reasonably competitive provider of agreements such as the Agreement.

Dated this 6th day of February, 2007.

By _____
Name Adam Howard
Title Vice President

4820-4253-5169.2
Roseville Natural Gas/WB#770 - 02/07

CLOSING MEMORANDUM

$209,350,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS,
SERIES 2007

February 6, 2007

This memorandum outlines the action taken in connection with the issuance and sale of $209,350,000 aggregate principal amount of Gas Revenue Bonds, Series 2007 (the "Bonds"), of the Roseville Natural Gas Financing Authority (the "Authority").

Terms defined in the Bond Purchase Contract with respect to the Bonds, dated January 24, 2007, between the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser"), have the same meanings in this memorandum as such terms are given in the Bond Purchase Contract.

ACTIONS TAKEN PRIOR TO CLOSING

A. Authority Proceedings

1. On January 17, 2007, the Board of Directors of the Authority adopted Resolution No. 1-07 approving an Agreement for Purchase and Sale of Natural Gas; approving a Natural Gas Supply Agreement; authorizing and approving the issuance of not to exceed $235,000,000 aggregate principal amount of Revenue Bonds; approving the Trust Indenture pursuant to which such bonds are to be issued; approving disclosure documents, and a bond purchase contract in connection with such bonds; approving a natural gas price swap agreement and authorizing a natural gas price swap transaction; and authorizing and approving other documents and authorizing certain other actions in connection with the acquisition and sale of natural gas and the issuance, securing and sale of such bonds.

2. On January 24, 2007, the Executive Director executed and delivered the Bond Purchase Contract.

3. On January 24, 2007, the Executive Director executed and delivered the Commodity Swap.

4. On January 24, 2007, the Executive Director executed and delivered the Prepaid Gas Agreement.

B. Purchaser's Proceedings

Prior to or concurrently with the distribution of offering material, action was taken to qualify the Bonds under certain Blue Sky and securities laws for offer and sale by the Purchaser.

C. Authentication of the Bonds

Prior to February 6, 2007, the Trustee took possession of the Bonds, authenticated the Bonds and held them in escrow until the Closing.

D. General

1. On or before February 5, 2007, the Purchaser, the Trustee and the Authority agreed upon all computations of amounts required in connection with the Closing and the issuance and delivery of the Bonds, and the amount to be delivered at the Closing in payment for the Bonds.

2. The office of the counsel to the Authority arranged for a continuation down to the date of the Closing of all necessary searches relating to the existence of litigation.

E. Preliminary Closing

On February 5, 2007, a Preliminary Closing (the "Preliminary Closing") was held at 2:00 P.M., Pacific Standard Time, at the offices of Orrick, Herrington & Sutcliffe LLP, Conference Room A-31, 777 South Figueroa Street, Los Angeles, California 90017. At the Preliminary Closing all documents (8 originals of each) to be delivered at the Closing as set forth in Schedule A attached hereto were reviewed and approved by counsel for all parties and held in escrow until the Closing.

ACTION TO BE TAKEN AT THE CLOSING

A. Closing Location and Participating Parties

1. The Closing is to be held in the offices of Orrick, Herrington & Sutcliffe LLP, Main Conference Room, 32nd Floor, 777 South Figueroa Street, Los Angeles, California 90017 commencing at 8:00 A.M., Pacific Standard Time, on February 6, 2007.

2. The persons listed in Schedule B attached hereto participated in the Closing.

B. Closing Procedure

1. All appearing to be in readiness for the Closing, the office of the counsel to the Authority is to confirm that no suit, action or other litigation has been filed in connection with the issuance of the Bonds.

2. Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the Purchaser of the Bonds, shall then wire transfer immediately available funds to The Bank of New York Trust Company, N.A. (the "Trustee") as Trustee under the Trust Indenture, dated as of February 1, 2007, by and between the Authority and the Trustee, the following amount: $223,670,970.87, which amount, together with $124,992.00 wired by the Purchaser (at the direction of and for the account of the Authority) to the Customer Insurance Provider as the premium for the Customer Insurance Policy, represents the purchase price of the Bonds.

3. The proceeds of the Bonds shall be applied as provided in the Trust Indenture.

4. The Bonds and the remaining receipts, certificates, opinions and other documents specified in Schedule A, were packaged at the Preliminary Closing in executed form for delivery to the appropriate parties and their counsel and were delivered at the Closing. All documents delivered and all other actions taken in connection with the Closing shall be considered to have been delivered or taken simultaneously and no such delivery or other action shall be considered to have been completed until all deliveries and other action constituting a part of the Closing shall have been completed.

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SCHEDULE A

LIST OF CLOSING DOCUMENTS

$209,350,000

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

ROSEVILLE NATURAL GAS FINANCING AUTHORITY
GAS REVENUE BONDS
SERIES 2007

$209,350,000

LIST OF CLOSING DOCUMENTS

A. BASIC DOCUMENTS

1. Trust Indenture, dated as of February 1, 2007 (the "Trust Indenture"), by and between the Roseville Natural Gas Financing Authority (the "Authority") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee").

2. Preliminary Official Statement, dated January 18, 2007, of the Authority relating to the Bonds.

3. Official Statement, dated January 24, 2007, of the Authority relating to the Bonds.

4. Bond Purchase Contract, dated January 24, 2007, by and between the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser").

5. Continuing Disclosure Certificate, dated as of February 6, 2007, by and between the City of Roseville (the "City" or the "Municipality") and the Trustee.

6. Tax Certificate and Agreement, dated as of February 6, 2007, executed by the City.

7. The Depository Trust Company Blanket Issuer Letter of Representations.

8. Debt Service Fund Forward Delivery Agreement, dated as of February 1, 2007, by and among the Trustee, the Authority and Wachovia Bank, National Association (the "Provider").

B. NATURAL GAS PURCHASE AND SALE DOCUMENTS

1. Agreement for Purchase and Sale of Natural Gas, dated as of January 24, 2007 (the "Prepaid Gas Agreement"), between Merrill Lynch Commodities, Inc. (the "Gas Supplier") and the Authority.

2. Guarantee, dated February 1, 2007, from Merrill Lynch & Co., Inc. (the "Guarantor"), guaranteeing the payment obligations of the Gas Supplier under the Prepaid Gas Agreement.

3. Funding and Assignment Agreement, dated as of February 1, 2007 (the "Funding Agreement"), between the Gas Supplier and the Authority.

4. Guarantee, dated February 1, 2007, from the Guarantor, guaranteeing the payment obligations of the Gas Supplier under the Funding Agreement.

5. Natural Gas Supply Agreement, dated as of February 1, 2007 (the "Supply Agreement"), between the Municipality and the Authority.

6. Certificate of Gas Supplier, as required by Sections 22.3.4 and 22.3.5(b) of the Prepaid Gas Agreement.

7. Certificate of Gas Supplier, as required by Section 6(c)(xi) of the Bond Purchase Contract.

8. Certificate of Guarantor, as required by Sections 22.3.2 and 22.3.6(b) of the Prepaid Gas Agreement.

9. Certificate of the Guarantor, as required by Section 6(c)(xi) of the Bond Purchase Contract.

C. ROSEVILLE NATURAL GAS FINANCING AUTHORITY DOCUMENTS

1. Certificate of Secretary of the Authority.

2. Notice of a Joint Powers Agreement, as certified by the California Secretary of State, and Statement of Facts Roster of Public Agencies Filing.

3. Certificate as to Board of Directors and officers of the Authority and their signatures.

4. Written Request of the Authority.

5. Certificate as to Specimen Bonds.

6. Certificate of the Authority, as required by Section 22.2.3 of the Prepaid Gas Agreement and Section 6(c)(vii) of the Bond Purchase Contract.

7. Certificate of the Authority as to Finality of Preliminary Official Statement relating to the Bonds.

8. Requisition No. 1 (Costs of Issuance Fund).

9. Requisition No. 1 (Gas Prepayment Fund).

D. CITY OF ROSEVILLE DOCUMENTS

1. Certificate of City Clerk.

2. Certificate as to City Council and Officers of the City and their signatures.

3. Certificate of the Municipality, as required by Section 6(c)(viii) of the Bond Purchase Contract.

E. SWAP DOCUMENTS

1. ISDA Master Agreement, dated as of January 24, 2007, by and between the Authority and JPMorgan Chase Bank, National Association ("JPMorgan Chase bank"), together with Schedule, Credit Support Annex, and a Confirmation.

2. Certificate of JPMorgan Chase Bank as to the accuracy of the information relating to such party contained in the Official Statement.

3. ISDA Master Agreement, dated as of January 24, 2007, by and between the Gas Supplier and JPMorgan Chase Bank, together with Schedule and Confirmation.

F. CUSTOMER INSURANCE POLICY PROVIDER DOCUMENTS

1. Customer Insurance Policy Commitment issued by Financial Security Assurance Inc. (the "Customer Insurance Policy Provider") to issue the financial guaranty insurance policy (the "Customer Insurance Policy").

2. Customer Insurance Policy issued by the Customer Insurance Policy Provider.

3. Reimbursement Agreement, dated as of February 1, 2007, by and between the Customer Insurance Policy Provider and the Municipality.

4. Certificate of Customer Insurance Policy Provider as to the accuracy of the information relating to such party contained in the Official Statement.

G. TRUSTEE DOCUMENTS

1. Certificate of the Trustee, as required by Section 6(c)(xvii) of the Bond Purchase Contract, together with Secretary's Certificate, Extracts from By-Laws of Trustee and Signing Authority Resolution.

H. PURCHASER DOCUMENTS

1. Receipt for the Bonds.

2. Preliminary Blue Sky Survey, with respect to the Bonds.

I. LEGAL OPINIONS

1. Approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, as required by Section 6(c)(ii) of the Bond Purchase Contract.

2. Supplemental opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, as required by Section 6(c)(iii) of the Bond Purchase Contract.

3. Reliance letter on final opinion of Orrick, Herrington & Sutcliffe LLP, addressed to the Purchaser and the Trustee.

4. Opinion of Orrick, Herrington & Sutcliffe LLP, as special counsel to the Authority, as required by Section 22.2.6 of the Prepaid Gas Agreement.

5. Opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, with respect to the Commodity Swap.

6. Opinion of Orrick, Herrington & Sutcliffe LLP, as special counsel to the Municipality, addressed to the Customer Insurance Policy Provider.

7. Opinion of the City Attorney as counsel to the Authority, addressed to the Purchaser, ad required by Section 6(c)(iv) of the Bond Purchase Contract.

8. Opinion of the City Attorney addressed to the Purchaser, as required by Section 6(c)(v) of the Bond Purchase Contract.

9. Opinion of the City Attorney as counsel to the Authority, addressed to the Trustee, as required by Section 2.03(ii) and Section 2.03(viii) of the Trust Indenture.

10. Opinion of City Attorney as counsel to the Authority, addressed to the Gas Supplier, as required by Section 22.2.6 of the Prepaid Gas Agreement.

11. Opinion of the City Attorney, as required by Appendix A of the Customer Insurance Policy Commitment.

12. Opinion of the City Attorney as counsel to the Authority, addressed to the Trustee and the Provider, as required by Section 6.01(c) of the Forward Delivery Agreement.

13. Opinion of Nixon Peabody LLP, counsel to the Purchaser, as required by Section 6(c)(vi) of the Bond Purchase Contract.

14. Opinion of Jackson Walker LLP, counsel to the Gas Supplier and the Guarantor, as required by Section 22.3.5 and Section 22.3.6 of the Prepaid Gas Agreement.

15. Reliance letter of opinion from Jackson Walker LLP addressed to the Provider.

16. Opinion of Managing Director and Associate General Counsel of JPMorgan Chase Bank, addressed to the Authority.

17. Opinion of Associate General Counsel to the Customer Insurance Policy Provider, addressed to the Authority, the Trustee and the Purchaser, as required by Section 6(c)(x) of the Bond Purchase Contract.

18. Opinion of Jensen Law Office, as special counsel to the Trustee.

19. Opinion of Kutak Rock LLP, as counsel to the Provider.

J. MISCELLANEOUS

1. Evidence of filings with the California Debt and Investment Advisory Commissioner.

2. Certificate of Secretary of Redevelopment Agency of the City of Roseville.

3. Internal Revenue Service Form 8038-G.

4. Rating Letters of Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings, Ltd.

5. Certificate of the Provider

6. Closing Memorandum.

7. Interested Parties List.

SCHEDULE B

CLOSING PARTICIPATION

The following parties are to be represented at the Closing by the individuals listed beneath each heading.

ROSEVILLE NATURAL GAS FINANCING AUTHORITY AND CITY OF ROSEVILLE

By: Robert Schmitt, Esq.

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By: Ed Burdett
Greg Dawley

ORRICK, HERRINGTON & SUTCLIFFE LLP

By: Eugene J. Carron, Esq.
Larry D. Sobel, Esq.

NIXON PEABODY LLP

By: Elizabeth M. Columbo, Esq.
Daniel Deshon, Esq.
Mitch Rapaport, Esq.
Nathan Treu, Esq.

JENSEN LAW OFFICE

By: Phillip K. Jensen, Esq.

THE BANK OF NEW YORK TRUST COMPANY, N.A.

By: Sally Ronquillo

JACKSON WALKER LLP

By: Paul Vrana, Esq.

MCDONALD PARTNERS, INC.

By: Sandra McDonald

Roseville Electric/City of Roseville

Prepay Natural Gas Project

Master Distribution List

(Updated: 12-19-2006)

CITY OF ROSEVILLE 311 Vernon Street Roseville, CA 95678		
Russ Branson	*Finance Director/Treasurer*	**Telephone:** (916) 774-532 **Fax:** (916) 746-1220 **E-Mail:** rbranson@roseville.ca.us
Monty Hanks	*Investment Analyst*	**Telephone:** (916) 774-5313 **Fax:** (916) 746-1220 **E-Mail:** mhanks@roseville.ca.us
Sandra Ikeda	*Accounting Manager*	**Telephone:** (916) 774-5314 **Fax:** (916) 746-1220 **E-Mail:** sikeda@roseville.ca.us
Brita McNay	*City Attorney*	**Telephone:** (916) 774-5325 **Fax:** (916) 773-7348 **E-Mail:** bmcnay@roseville.ca.us
Ed Oborn	*Assistant Finance Director*	**Telephone:** (916) 774-5254 **E-Mail:** eoborn@roseville.ca.us
Bob Schmitt	*Assistant City Attorney*	**Telephone:** (916) 774-5325 **Fax:** (916) 773-7348 **E-Mail:** rschmitt@roseville.ca.us
John Sprague	*Assistant City Manager*	**Telephone:** (916) 774-5334 **Fax:** (916) 774-5195 **E-Mail:** jsprague@roseville.ca.us

Roseville Electric/City of Roseville

Prepay Natural Gas Project

Master Distribution List

(Updated: 12-19-2006)

City of Roseville - Roseville Electric 2090 Hilltop Circle Roseville, CA 95747				
Michelle Bertolino	*Assistant Utility Director, Administrative and Retail Services*	City of Roseville - Roseville Electric	2090 Hilltop Circle Roseville, CA 95747	**Telephone:** (916) 774-5603 **Fax:** (916) 774-5583 **E-Mail:** mbertolino@roseville.ca.us
Tom Green	*Assistant Utility Director, Power Supply*	City of Roseville - Roseville Electric	2090 Hilltop Circle Roseville, CA 95747	**Telephone:** (916) 774-5619 **Fax:** (916) 774-5583 **E-Mail:** tgreen@roseville.ca.us
Tom Habashi	*Utility Director*	City of Roseville - Roseville Electric	2090 Hilltop Circle Roseville, CA 95747	**Telephone:** (916) 774-5602 **Fax:** (916) 784-3737 **E-Mail:** thabashi@roseville.ca.us

UNDERWRITER/COUNSEL/CONSULTANT				
Paul Vrana	*Outside Counsel for MLCI*	Jackson Walker	1401 McKinney Street, Suite 1900 Houston, TX 77010	**Telephone:** (713) 752-4515 **Fax:** **E-Mail:** pvrana@jw.com
Sandra McDonald	*Advisor/Consultant*	McDonald Partners	222 High Eagle Road Alamo, CA 94507	**Telephone:** (925) 743-8498 **Fax:** (925) 743-8425 **E-Mail:** sandra@mcdonaldpartners.com
Vanessa Baker	*Analyst*	Merrill Lynch	4 World Financial Center, 250 Vesey Street, 9th Floor New York, NY 10080	**Telephone:** (212) 449-2383 **Fax:** (212) 449-9858 **E-Mail:** vanessa_baker@ml.com
Ed Burdett	*Managing Director, Underwriting*	Merrill Lynch	101 California Street, Suite 1225 San Francisco, CA 94111	**Telephone:** (415) 676-3210 **Fax:** (415) 676-3351 **E-Mail:** ed_burdett@ml.com

Roseville Electric/City of Roseville

Prepay Natural Gas Project

Master Distribution List

(Updated: 12-19-2006)

Greg Dawley	*Vice President*	Merrill Lynch	S. Grand Avenue, Suite 2800 Los Angeles, CA 90071	**Telephone:** (213) 217-4504 **Fax:** (213) 217-4530 **E-Mail:** gregory_dawley@ml.com
Chris Fink	*Managing Director*	Merrill Lynch	4 World Financial Center, 250 Vesey Street, 9th Floor New York, NY 10080	**Telephone:** (212) 449-8706 **Fax:** (212) 738-1002 **E-Mail:** chrisopher_fink@ml.com
Kelly Funderburk		Merrill Lynch Commodities, Inc.	20 E. Greenway Plaza Houston, TX 77046	**Telephone:** (713) 544-5462 **E-Mail:** kelly_funderburk@ml.com
Michael Grundmeyer	*Consultant*	Merrill Lynch	999 Third Avenue, Suite 3610 Seattle, WA 98104	**Telephone:** (206) 830-6044 **Fax:** (206) 830-6044 **E-Mail:** michael_grundmeyer@ml.com
Ian Parker	*Director, Underwriting*	Merrill Lynch	101 California Street, Suite 1225 San Francisco, CA 94111	**Telephone:** (415) 676-3218 **Fax:** (415) 676-3351 **E-Mail:** ian_parker@ml.com
David Stephens	*Managing Director*	Merrill Lynch	4 World Financial Center, 250 Vesey Street, 9th Floor New York, NY 10080	**Telephone:** (212) 449-5288 **Fax:** (212) 499-9856 **E-Mail:** dave_stephens@ml.com
Don Ellithorpe	*Vice President*	Merrill Lynch Commodities, Inc.	20 E. Greenway Plaza Houston, TX 77046	**Telephone:** (713) 544-7307 **Fax:** (713) 544-4121 **E-Mail:** don_ellithorpe@ml.com
Steven Hanan	*Director*	Merrill Lynch Commodities, Inc.	20 E. Greenway Plaza Houston, TX 77046	**Telephone:** (713) 544-4907 **Fax:** (713) 544-4121 **E-Mail:** steve_hanan@ml.com
Mark Widener	*Director*	Merrill Lynch Commodities, Inc.	3455 Peachtree Road The Pinnacle, Suite 200 Atlanta, GA 30326	**Telephone:** (404) 264-3860 **Fax:** (404) 264-3629 **E-Mail:** mark_widener@ml.com
David Koons	*Director*	Merrill Lynch Commodities, Inc.	20 E. Greenway Plaza Houston, TX 77046	**Telephone:** (713) 544-7520 **Fax:** (713) 544-4121 **E-Mail:** david_koons@ml.com
Elizabeth M. Columbo	*Underwriters Counsel*	Nixon Peabody LLP	437 Madison Avenue New York, NY 10022	**Telephone:** (212) 940-3183 **Fax:** (866) 947-2264 **E-Mail:** ecolumbo@nixonpeabody.com

Roseville Electric/City of Roseville
Prepay Natural Gas Project
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Daniel Deshon	*Underwriters Counsel*	Nixon Peabody LLP	Two Embarcadero Center San Francisco, CA 94111	**Telephone:** (415) 984-8360 **Fax:** (866) 947-2467 **E-Mail:** ddeshon@nixonpeabody.com
Mitch Rapaport	*Underwriters Counsel*	Nixon Peabody LLP	410 Ninth Street Washington, DC 20004	**Telephone:** (202) 585-8305 **Fax:** (202) 585-8080 **E-Mail:** mrapaport@nixonpeabody.com
Nathan Treu		Nixon Peabody LLP	Two Embarcadero Center, Suite 2700 San Francisco, CA 94111	**Telephone:** (415) 984-8208 **Fax:** (866) 774-6431 **Cell:** (415) 420-3798 **E-Mail:** ntreu@nixonpeabody.com
Eugene (Gene) Carron	*Bond Counsel*	Orrick, Herrington & Sutcliffe LLP	777 South Figueroa Street, Suite 3200 Los Angeles, CA 90017-5855	**Telephone:** (213) 612-2425 **Fax:** (213) 612-2499 **E-Mail:** ecarron@orrick.com
Larry Sobel	*Bond Counsel*	Orrick, Herrington & Sutcliffe LLP	777 South Figueroa Street, Suite 3200 Los Angeles, CA 90017-5855	**Telephone:** (213) 612-2421 **Fax:** (213) 612-2499 **E-Mail:** lsobel@orrick.com
Eric Friedland	*Bond Insurer*	Financial Security Assurance	31 West 52nd Street New York, NY 10019	**Telephone:** (212) 339-3544 **Fax:** (212) 857-0375 **E-Mail:** efriedland@fsa.com
Michael B. Cooper	*Bond Insurer*	Financial Security Assurance	31 West 52nd Street New York, NY 10019	**Telephone:** (212) 893-7389 **Fax:** (212) 857-0337 **E-Mail:** mcooper@fsa.com
Jamie Shilling	*Bond Insurer*	Financial Security Assurance		**Telephone:** (415) 995-8015 **E-Mail:** jshilling@fsa.com
Sally Ronquillo	*Trustee*	The Bank of New York Trust Company, N.A.	550 Kearny Street, Suite 600 San Francisco, CA 94108	**Telephone:** (415) 263-2412 **Fax:** (415) 263-2064 **E-Mail:** rronquillo@bankofny.com
Phillip K. Jensen	*Trustee's Counsel*	Jensen Law Office	121 Leslee Lane Orinda, CA 94563-4217	**Telephone:** (925) 284-7071 **Fax:** (925) 284-7079 **E-Mail:** pkjensen@att.net

Roseville Electric/City of Roseville

Prepay Natural Gas Project

Master Distribution List

(Updated: 12-19-2006)

RATING AGENCIES				
Hiran Cantu	*Director*	FitchRatings	One State Street Plaza New York, NY 10004	**Telephone:** (212) 908-0371 **Fax:** (212) 480-4421 **E-Mail:** hiran.cantu@fitchratings.com
Karl Pfeil	*Managing Director*	FitchRatings	One State Street Plaza New York, NY 10004	**Telephone:** (212) 908-0516 **Fax:** (212) 480-4421 **E-Mail:** karl.pfeil@fitchratings.com
Chloe Weil	*Associate Director*	FitchRatings	One State Street Plaza New York, NY 10004	**Telephone:** (212) 908-0574 **Fax:** (212) 480-4421 **E-Mail:** chloe.weil@fitchratings.com
Kathryn Masterson	*Director*	FitchRatings	650 California Street, 8th Floor San Francisco, CA 94108	**Telephone:** (415) 732-5622 **Fax:** (415) 732-5610 **E-Mail:** Kathryn.masterson@fitchratings.com
Daniel Aschenbach	*Senior Vice President, Public Finance Group*	Moody's Investor Service	99 Church Street, 9th Floor New York, NY 10007	**Telephone:** (212) 553-0880 **Fax:** (212) 553-4919 **E-Mail:** dan.aschenbach@moodys.com
Gregory Lipitz	*Vice President/Senior Analyst Public Finance Group*	Moody's Investor Service	99 Church Street, 9th Floor New York, NY 10007	**Telephone:** (213) 553-7782 **Fax:** (212) 553-1390 **E-Mail:** Gregory_lipitz@moodys.com
Joann Hempel	*Vice President/Senior Credit Officer Public Finance Group*	Moody's Investor Service	Harborside Financial Center Plaza Five, Suite 2400 Jersey City, NJ 07311-3988	**Telephone:** (212) 395-6326 **Fax:** (212) 298-6509 **E-Mail:** joann.hempel@moodys.com

Roseville Electric/City of Roseville
Prepay Natural Gas Project
Master Distribution List
(Updated: 12-19-2006)

Michael Messer	*Vice President*	Standard & Poor's	55 Water Street New York, NY 10041	**Telephone:** (212) 438-1618 **Fax:** (212) 438-2154 **E-Mail:** Michael_messer_sandp.com
Chinelo Chidozie	*Vice President*	Standard & Poor's	55 Water Street New York, NY 10041	**Telephone:** (212) 438-3076 **Fax:** (212) 438-2154 **E-Mail:** chinelo_chidozie@sandp.com