M-S-R Public Power Agency

MEETING OF THE COMMISSION

Wednesday, March 23, 2011, 12:00 noon
Navigant Consulting, Inc.
3100 Zinfandel Drive, Suite 600, Sierra Room
Sacramento, California

AGENDA

Distribution:

Commissioners & Alternate Commissioners	Others
Modesto:	Lisa Gast
Allen Short	Steve Gross
Roger Van Hoy (Alt)	Lou Hampel
Greg Salyer (Alt)	Alan Hockenson
Santa Clara:	Martin Hopper[1]
Pat Kolstad	Jan Pepper
John Roukema[1] (Alt)	Pete Scanlon
Redding:	Cindy Worley
Paul Hauser	file/er/msr
Tim Nichols[1] (Alt)	Rin Helzerman[1]

[1] Please post agenda.

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Any member of the public who desires to address the Commission on any item considered by the Commission at this meeting before or during the Commission's consideration of that item shall so advise the Chair and shall thereupon be given an opportunity to do so.

1. Call to Order

2. Roll Call

3. ***Discussion and possible action regarding Series O Bonds and Resolution 2011-03, Resolution of the Commission of the M-S-R Public Power Agency approving the Forms and Authorizing the Execution and Delivery of an Eighteenth Supplemental Indenture of Trust and a Purchase Contract; Authorizing the Distribution of a Preliminary Official Statement and the Execution and Delivery of an Official Statement; and Authorizing Future Refunding Bond Issues and Certain Other Actions in Connection Therewith*** (attached, Martin Hopper)

4. Public Comment

5. ***Confirm date and time of next meeting***

6. Adjourn

ALTERNATE FORMATS OF THIS AGENDA WILL BE MADE AVAILABLE UPON REQUEST TO QUALIFIED INDIVIDUALS WITH DISABILITIES.

RESOLUTION NO. 2011-__
Adopted on March 23, 2011

RESOLUTION OF THE COMMISSION OF THE M-S-R PUBLIC POWER AGENCY APPROVING THE FORMS AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN EIGHTEENTH SUPPLEMENTAL INDENTURE OF TRUST AND A PURCHASE CONTRACT; AUTHORIZING THE DISTRIBUTION OF A PRELIMINARY OFFICIAL STATEMENT AND THE EXECUTION AND DELIVERY OF AN OFFICIAL STATEMENT; AND AUTHORIZING FUTURE REFUNDING BOND ISSUES AND CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Modesto Irrigation District (the "District"), an irrigation district in the State of California, the City of Santa Clara ("Santa Clara"), a charter city and municipal corporation in the State of California, and the City of Redding ("Redding"), a general law city and municipal corporation in the State of California, have heretofore executed a Joint Exercise of Powers Agreement (the "Joint Powers Agreement"), dated as of April 28, 1980, as amended and restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Exercise of Powers Agreement, dated June 26, 1990, and Amendment Number 2 to the Amended and Restated Joint Exercise of Powers Agreement, dated January 24, 2006, by and among the District, Santa Clara and Redding, which Joint Powers Agreement creates and establishes the M-S-R Public Power Agency (the "Agency"); and

WHEREAS, pursuant to the Joint Powers Agreement and Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Marks-Roos Local Bond Pooling Act of 1985" or the "Act"), the Agency is authorized to undertake a revenue bond financing for public capital improvements, working capital, liability and other insurance needs or projects whenever there are significant public benefits, as determined by the Agency; and

WHEREAS, pursuant to Resolution No. 83-10, adopted by the Commission of the Agency (the "Commission") on June 16, 1983, as amended and supplemented, the Agency has heretofore duly issued its San Juan Project Revenue Bonds, including its San Juan Project Refunding Revenue Bonds, Series I (the "Series I Bonds") to assist in the refinancing of certain transmission facilities of the Agency relating to the San Juan Project; and

WHEREAS, pursuant to the Indenture of Trust, dated as of June 1, 1994, as amended and supplemented (the "Original Indenture"), between the Agency and U.S. Bank National Association, as trustee (the "Trustee"), the Agency has heretofore duly issued its San Juan Project Subordinate Lien Revenue Bonds, and the Agency now desires to issue an additional Series of such bonds, namely, M-S-R Public Power Agency San Juan Project Subordinate Lien Revenue Bonds, Series 2011O in an aggregate principal amount not to exceed $40,000,000 (the "Series 2011O Bonds"), for the purpose of refunding a portion of the outstanding Series I Bonds (the "Refunded Series I Bonds"); and

WHEREAS, pursuant to the Act, the Agency is authorized to sell the Series 2011O Bonds to public or private purchasers through a negotiated sale; and

WHEREAS, the Agency desires to enter into (i) a supplement to the Original Indenture, namely, the Eighteenth Supplemental Indenture of Trust (the "Eighteenth Supplemental Indenture of Trust" and together with the Original Indenture, the "Indenture"), by and between the Agency and the Trustee, relating to the Series 2011O Bonds, and (ii) a Purchase Contract (the "Series 2011O Purchase Contract"), by and between the Agency and J.P. Morgan Securities LLC (the "Underwriter"); and

WHEREAS, the Agency further desires to approve the form of and authorize the distribution by the Underwriter of an official statement relating to the Series 2011O Bonds (the "Official Statement"), in both preliminary and final form; and

WHEREAS, the Agency desires to authorize other actions and documents as may be necessary or appropriate in connection with the issuance of the Series 2011O Bonds, including purchase of bond insurance for the Series 2011O Bonds; and

WHEREAS, the Agency has found and determined that the consummation of the transactions contemplated by this Resolution and the Indenture will result in significant public benefits in that the Agency expects to benefit from a demonstrable interest rate savings related to financing the Agency's San Juan Project;

NOW, THEREFORE, BE IT RESOLVED by the Commission of the Agency as follows:

<u>Section 1.</u> The Commission hereby finds and determines that the matters set forth in the preambles to this Resolution are true and correct.

<u>Section 2.</u> The President or Vice President of the Commission or the General Manager of the Agency each are hereby authorized and directed to execute and deliver to the Trustee the Eighteenth Supplemental Indenture of Trust, in substantially the form presented to this meeting and which is hereby approved, subject to such additions thereto or changes therein as the President or Vice President of the Commission or the General Manager of the Agency may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

<u>Section 3.</u> The President or Vice President of the Commission or the General Manager of the Agency each are hereby authorized and directed to execute and deliver to the Underwriter the Series 2011O Purchase Contract, in substantially the form presented to this meeting and which is hereby approved, subject to such additions thereto or changes therein as the President or Vice President of the Commission or the General Manager of the Agency may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, (i) that the aggregate compensation of the Underwriter with respect to the Series 2011O Bonds shall not exceed eight-tenths of one percent (0.8%) of the aggregate principal amount of the Series 2011O Bonds, and (ii) that the present value savings resulting from the refunding of the Refunded Series I Bonds shall equal or exceed five percent (5.00%) of the refunded principal amount of the Refunded Series I Bonds, all as calculated by the financial advisor to the Agency and reviewed and approved by the authorized signatory of the Series 2011O Purchase Contract, which approval shall be final and conclusive on the Agency.

Section 4. The proposed form of the Preliminary Official Statement relating to the Series 2011O Bonds and presented to this meeting is hereby approved, and the Underwriter is hereby authorized to distribute a Preliminary Official Statement in substantially said form in connection with the sale of the Series 2011O Bonds. The President or Vice President of the Commission or the General Manager of the Agency each are hereby authorized to confirm that the Preliminary Official Statement has been "deemed final" by the Agency for purposes of Securities and Exchange Commission Rule 15c2-12. The President or Vice President of the Commission or the General Manager of the Agency each are hereby authorized and directed to execute and deliver to the Underwriters a final Official Statement relating to the Series 2011O Bonds, in substantially the form of the Preliminary Official Statement, subject to such additions thereto or changes therein as the President or Vice President of the Commission or the General Manager of the Agency may approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Underwriter is hereby authorized to distribute copies of the Official Statement, in final form to all actual purchasers of the Series 2011O Bonds.

Section 5. To the fullest extent permitted by law, the Commission hereby authorizes and approves the issuance of the Series 2011O Bonds in an aggregate principal amount not to exceed $40,000,000. The Series 2011O Bonds shall be executed by the manual or facsimile signature of the President, and the seal of the Agency shall be affixed or reproduced thereon and attested by the manual or facsimile signature of the Secretary of the Agency. The Series 2011O Bonds, when so executed, shall be delivered to the Trustee for authentication. The Trustee is hereby requested and directed to authenticate the Series 2011O Bonds by executing the Trustee's certificate of authentication appearing thereon, and to deliver the Series 2011O Bonds, when duly executed and authenticated, to the Underwriter in accordance with written instructions executed on behalf of the Agency by the President or his designee, which instructions said officer is hereby authorized and directed, for and in the name and on behalf of the Agency, to execute and deliver to the Trustee. Such instructions shall provide for the delivery of the Series 2011O Bonds to the Underwriter in accordance with the Series 2011O Purchase Contract upon payment of the purchase price thereof.

Section 6. The Secretary of the Agency is hereby authorized and directed to attest the signature of the President and to affix and attest the seal of the Agency, as may be required in connection with the execution and delivery of the Series 2011O Bonds, the Eighteenth Supplemental Indenture of Trust, the Series 2011O Purchase Contract and the Official Statement.

Section 7. The President or Vice President of the Commission or the General Manager of the Agency are hereby authorized (but not required) to procure bond insurance for the Series 2011O Bonds, on the terms and conditions that are approved by the Finance Committee, following consultation with the financial advisor to the Agency. Said President, Vice President or the General Manager are each hereby authorized to execute and deliver such commitments, financial guaranty agreements, insurance agreements or other instruments as they may determine to be necessary or appropriate in connection with such bond insurance, such determination to be conclusively evidenced by the execution and delivery thereof.

Section 8. The officers of the Agency are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents (including without limitation a tax certificate and a continuing disclosure agreement) which they deem necessary or appropriate in order to consummate the issuance, sale and delivery of the Series 2011O

Bonds, and the other documents approved hereby or required under the terms of the Indenture, the refunding of the Refunded Series I Bonds, the payment and redemption of the Refunded Series I Bonds, and otherwise to effectuate the purposes of this Resolution and the transactions contemplated hereby.

Section 9. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED by the Commission of the M-S-R Public Power Agency this 23rd day of March, 2011.

AYES:

NOES:

ABSENT:

APPROVED:

By ____
President of M-S-R Public Power Agency

ATTEST:

By __________________________________
Secretary of M-S-R Public Power Agency

SECRETARY'S CERTIFICATE

I, Steven C. Gross, Secretary of the M-S-R Public Power Agency, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Commission of said Agency duly and regularly held at Rancho Cordova, California on the 23rd day of March, 2011, at which meeting all of the members of said Commission had due notice and at which a majority thereof were present, and that at said meeting said resolution was adopted by the following vote:

Ayes:

Noes:

Absent:

I further certify that I have carefully compared the same with the original minutes of said meeting on file and of record in my office; that said resolution is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified or rescinded since the date of its adoption, and is not in full force and effect.

WITNESS, my hand and the seal of the M-S-R Public Power Agency this ___ day of ____________, 2011.

____

Secretary of the
M-S-R Public Power Agency

[SEAL]

EIGHTEENTH SUPPLEMENTAL INDENTURE OF TRUST

This EIGHTEENTH SUPPLEMENTAL INDENTURE OF TRUST, made and entered into as of April 1, 2011 (this "Eighteenth Supplemental Indenture"), by and between M-S-R PUBLIC POWER AGENCY, a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California (the "Agency"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under and by virtue of the laws of the United States of America (the "Trustee");

W I T N E S S E T H:

WHEREAS, the Agency is a joint exercise of powers authority organized and existing pursuant to a Joint Exercise of Powers Agreement, dated as of April 29, 1980, as amended and restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Powers Agreement, dated June 26, 1990, and by Amendment Number 2 to the Amended and Restated Joint Exercise of Powers Agreement, dated January 24, 2006, by and among Modesto Irrigation District, the City of Santa Clara and the City of Redding, pursuant to the Joint Exercise of Powers Act (Sections 6500 et seq. of the California Government Code);

WHEREAS, the Agency is authorized under California law to issue revenue bonds to acquire and construct facilities for the generation or transmission of electrical energy (including all rights, properties and improvements necessary therefor), and to issue revenue bonds for the purpose of redeeming or retiring revenue bonds and other indebtedness of the Agency;

WHEREAS, the Indenture of Trust, dated as of June 1, 1994, as amended and supplemented (the "Indenture"), between the Agency and the Trustee, provides for the issuance of M-S-R Public Power Agency San Juan Project Subordinate Lien Revenue Bonds;

WHEREAS, the Agency has heretofore duly issued the Agency's San Juan Project Revenue Bonds, pursuant to a Bond Resolution, adopted by the Agency on June 16, 1983 and thereafter amended and supplemented, including its San Juan Project Refunding Revenue Bonds, Series I (the "Series I Bonds");

WHEREAS, the Commission has determined to authorize the issuance by the Agency of its M-S-R Public Power Agency San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds"), in an aggregate principal amount of $[par amount], pursuant to the terms of the Indenture and this Eighteenth Supplemental Indenture, for the purposes of (a) refunding a portion of the remaining outstanding Series I Bonds [with stated maturity dates from July 1, 20__ to July 1, 20__, inclusive] (the "Refunded Series I Bonds"); (b) funding a deposit to the Series 2011O Bonds Debt Service Reserve Subaccount; and (c) funding costs of issuance relating to the Series 2011O Bonds.

WHEREAS, in order to provide for the authentication and delivery of the Series 2011O Bonds, to establish and declare the terms and conditions upon which the Series 2011O Bonds are to be issued and secured and to secure the payment of the principal thereof and interest thereon, the Commission has authorized the execution and delivery of this Eighteenth Supplemental Indenture; and

WHEREAS, the Agency hereby certifies that all acts and proceedings required by law that are necessary to make the Series 2011O Bonds, when issued by the Agency, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Agency payable in accordance with their terms, and to constitute this Eighteenth Supplemental Indenture a valid and binding agreement of the parties hereto for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Eighteenth Supplemental Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS EIGHTEENTH SUPPLEMENTAL INDENTURE WITNESSETH, in order to secure the payment of the principal of and the interest on all Series 2011O Bonds at any time issued and Outstanding under the Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Series 2011O Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Series 2011O Bonds by the owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Agency does hereby covenant and agree with the Trustee, for the benefit of the respective Holders from time to time of the Series 2011O Bonds, as follows:

ARTICLE LXIII

AUTHORITY AND DEFINITIONS

Section 63.01. Supplemental Indenture. This Eighteenth Supplemental Indenture is authorized pursuant to Section 9.05 of the Indenture.

Section 63.02. Definitions. Capitalized terms used in this Eighteenth Supplemental Indenture and not otherwise defined herein shall have the meanings assigned to such terms in Section 1.01 of the Indenture. In addition, the following words and terms, as used in this Eighteenth Supplemental Indenture and in the recitals hereto, shall have the following meanings unless the context or use clearly indicates another or different meaning or intent and such definitions shall be equally applicable to both the singular and plural forms of the terms and words herein defined:

Beneficial Owner

The term "Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2011O Bonds (including persons holding Series 2011O Bonds through nominees, depositories or other intermediaries).

Bond Resolution

The term “Bond Resolution” means that certain Bond Resolution, adopted by the Agency on June 16, 1983 and thereafter amended and supplemented, authorizing the issuance of the Refunded Series I Bonds.

Refunded Series I Bonds

The term “Refunded Series I Bonds” means the Agency’s San Juan Project Refunding Revenue Bonds, Series I [with stated maturity dates from July 1, 20__ to July 1, 20__, inclusive].

Series 2011O Bonds Debt Service Reserve Subaccount

The term “Series 2011O Bonds Debt Service Reserve Subaccount” means the account by that name established in Section 64.12 hereof.

[Series 2011O Municipal Bond Insurance Policy

The term “Series 2011O Municipal Bond Insurance Policy” means the insurance policy issued by the Series 2011O Municipal Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2011O Bonds when due.]

[Series 2011O Municipal Bond Insurer

The term “Series 2011O Municipal Bond Insurer” means ___________________, a _________________ insurance company, or any successor thereto or assignee thereof.]

Series 2011O Required Reserve

The term “Series 2011O Required Reserve” means $______________________.

Eighteenth Supplemental Indenture

The term “Eighteenth Supplemental Indenture” means this Eighteenth Supplemental Indenture of Trust providing for the issuance, sale and delivery of the Series 2011O Bonds, as the same may be amended or supplemented from time to time.

ARTICLE LXIV

AUTHORIZATION AND TERMS OF SERIES 2011O BONDS

Section 64.01. Authorization; Designation; and Terms. In accordance with and subject to the terms, conditions and limitations established in the Indenture and this Eighteenth Supplemental Indenture, a Series of Bonds is hereby authorized to be issued in an aggregate principal amount of $[par amount] to be designated as “M-S-R Public Power Agency San Juan Project Subordinate Lien Revenue Bonds, Series 2011O.” The Series 2011O Bonds shall be dated the date of delivery of the Series 2011O Bonds and shall mature on the dates, and bear interest at the rates, set forth below:

Maturity Date (July 1)	**Principal Amount**	**Interest Rate**
	$	%
*		

____
* Maturity.

The Interest Payment Date for the Series 2011O Bonds shall be July 1, 2011 and each January 1 and July 1 thereafter. Terms of the Series 2011O Bonds not specified herein shall be determined pursuant to the provisions of the Indenture.

Section 64.02. Issuance of Series 2011O Bonds. At any time after the sale of the Series 2011O Bonds, the Series 2011O Bonds shall be executed by the Agency for issuance hereunder and shall be delivered to the Trustee for authentication and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the documents and money called for by Section 2.11 of the Indenture.

Section 64.03. Deposit of Proceeds of Sale of Series 2011O Bonds. Upon the receipt of payment for the Series 2011O Bonds in the amount of $_____________ ($[par amount] principal amount plus $____________ original issue premium less $_____________ underwriters' discount [less $____________ bond insurance premium paid directly by the Underwriters to the Series 2011O Municipal Bond Insurer]), when the same shall have been duly delivered, the Trustee shall set aside and deposit the proceeds of sale of the Series 2011O Bonds, as follows:

(a) an amount equal to $______________shall be deposited in the Series 2011O Bonds Costs of Issuance Account, which account the Trustee shall establish, maintain and hold in trust so long as any moneys remain on deposit in such account, and transferred to or as directed by the Agency for the payment of costs of issuance, including underwriters' compensation (to the extent not paid as underwriter's discount), bond insurance premiums (to the extent not paid by the underwriter), for the Series 2011O Bonds; and

(b) an amount equal to $______________ shall be deposited in the Series I Escrow Fund, as established in Section 64.04 of this Eighteenth Supplemental Indenture for the purposes and application as set forth herein; and

(c) an amount equal to $________________ shall be deposited in the Series 2011O Bonds Debt Service Reserve Subaccount, as established in Section 64.12 of this Eighteenth Supplemental Indenture for the purposes and application as set forth herein; and

Section 64.04. Series I Escrow Fund. The following fund is created hereunder in connection with the issuance of the Series 2011O Bonds:

(a) a fund to be held by the Trustee (on behalf of the trustee for the Refunded Series I Bonds), for the benefit of holders of the Refunded Series I Bonds to be known as the "Series I Escrow Fund". The amounts deposited in the Series I Escrow Fund pursuant to Section 64.03 hereof shall be invested in Federal Securities (as that term is defined in the Bond Resolution) which will be sufficient to pay the principal [and interest] of the Refunded Series I Bonds in whole on July 1, 2011] (the redemption date therefor).

Section 64.05. Payment of Refunded Series I Bonds. Effective upon and simultaneously with the deposit of funds in the Series I Escrow Fund pursuant to Sections 64.03 and 64.04 hereof:

(a) the Refunded Series I Bonds shall be deemed to have been paid within the meaning of and with the effect expressed in Section 10.01 of the Bond Resolution.

Section 64.06. Surrender of Right. Effective upon and simultaneously with the payment of the Refunded Series I Bonds, the Agency surrenders any and all rights and powers the Agency may have with respect to the amounts deposited and held in the Series I Escrow Fund so long as any Refunded Series I Bonds remain unpaid.

Section 64.07. Form of Series 2011O Bonds. The Series 2011O Bonds shall be substantially in the form set forth in Exhibit A hereto.

Section 64.08. Terms of Series 2011O Bonds Subject to the Indenture. Except as in this Eighteenth Supplemental Indenture expressly provided, every term and condition contained in the Indenture shall apply to this Eighteenth Supplemental Indenture and to the Series 2011O Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Eighteenth Supplemental Indenture.

This Eighteenth Supplemental Indenture and all the terms and provisions herein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture shall continue in full force and effect in accordance with the terms and provisions thereof, as amended and supplemented hereby.

Section 64.09. Payment Pursuant to the Series 2011O Municipal Bond Insurance Policy. [So long as the Series 2011O Municipal Bond Insurance Policy shall be in full force and effect,

(a) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Series 2011O Bonds due on such Payment Date, the Trustee shall give notice to the Series 2011O Municipal Bond Insurer and to its designated agent (if any) (the "Series 2011O Municipal Bond Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series 2011O Bonds due on such Payment Date, the Trustee shall make a claim under the Series 2011O Municipal Bond Insurance Policy and give notice to the Series 2011O Municipal Bond Insurer and the Series 2011O Municipal Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2011O Bonds and the amount required to pay principal of the Series 2011O Bonds, confirmed in writing to the Series 2011O Municipal Bond Insurer and the Series 2011O Municipal Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Series 2011O Municipal Bond Insurance Policy.

(b) The Trustee shall designate any portion of payment of principal on Series 2011O Bonds paid by the Series 2011O Municipal Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2011O Bonds registered to the then current Series 2011O Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2011O Bond to the Series 2011O Municipal Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2011O Bond shall have no effect on the amount of principal or interest payable by the Agency on any Series 2011O Bond or the subrogation rights of the Series 2011O Municipal Bond Insurer.

(c) The Trustee shall keep a complete and accurate record of all funds deposited by the Series 2011O Municipal Bond Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Series 2011O Bond. The Series 2011O Municipal Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(d) Upon payment of a claim under the Series 2011O Municipal Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Series 2011O Bondholders referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Series 2011O Municipal Bond Insurance Policy in trust on behalf of Series 2011O Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Series 2011O Bondholders in the same manner as principal and interest payments are to be made with respect to the Series 2011O Bonds under the sections hereof regarding payment of Series 2011O Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the Agency agrees to pay to the Series 2011O Municipal Bond Insurer (i) a sum equal to the total of all amounts paid by the Series 2011O Municipal Bond Insurer under the Series 2011O Municipal Bond Insurance Policy (the "Series 2011O Municipal Bond Insurer Advances"); and (ii) interest on such Series 2011O Municipal Bond Insurer Advances from the date paid by the Series 2011O Municipal Bond Insurer until payment thereof in full, payable to the Series 2011O Municipal Bond Insurer at the Late Payment Rate per annum (collectively, the "Series 2011O Municipal Bond Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) 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 (ii) the then applicable highest rate of interest on the Series 2011O Bonds 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. The Agency hereby covenants and agrees that the Series 2011O Municipal Bond Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with debt service due on the Series 2011O Bonds.

(e) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Series 2011O Bond payment date shall promptly be remitted to the Series 2011O Municipal Bond Insurer.]

Section 64.10. Additional Rights of the Series 2011O Municipal Bond Insurer. [In addition to the rights granted to the Series 2011O Municipal Bond Insurer in the Indenture (including pursuant to Sections 6.05, 8.16, 9.03, and 9.06 of the Indenture), as long as the Series 2011O Municipal Bond Insurance Policy shall be in full force and effect,

(a) The Series 2011O Municipal Bond Insurer shall be deemed to be the sole holder of the Series 2011O Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2011O Bonds are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

(b) The maturity of Series 2011O Bonds shall not be accelerated without the consent of the Series 2011O Municipal Bond Insurer and in the event the maturity of the Series 2011O Bonds is accelerated, the Series 2011O Municipal Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Agency) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Series 2011O Municipal Bond Insurer's obligations under the Series 2011O Municipal Bond Insurance Policy with respect to such Series 2011O Bonds shall be fully discharged.

(c) In addition to the requirements sets forth in Section 5.02 of the Indenture, in order to accomplish defeasance of the Series 2011O Bonds, there shall be required (i) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Series 2011O Municipal Bond Insurer), and (iii) an opinion of nationally recognized bond counsel to the effect that the Series 2011O Bonds are defeased in accordance with the Indenture; such defeasance opinion shall be acceptable in form and substance, and addressed, to the Trustee and the Series 2011O Municipal Bond Insurer. The report of the Independent Certified Public Accountant shall be addressed to the Series 2011O Municipal Bond Insurer.

(d) The Agency shall pay or reimburse the Series 2011O Municipal Bond Insurer any and all charges, fees, costs and expenses that the Series 2011O Municipal Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Indenture or any Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any Related Document, or (iv) any litigation or other dispute in connection with the Indenture or any Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Series 2011O Municipal Bond Insurance Policy. The Series 2011O Municipal Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Related Document.

(e) So long as the Series 2011O Municipal Bond Insurance Policy shall be in full force and effect, the Series 2011O Municipal Bond Insurer shall be provided with the following information by the Agency or Trustee, as the case may be:

(i) Annual audited financial statements as soon as practicable after the filing thereof (together with a certification of the Agency that it is not aware of any default or Event of Default under the Indenture), and the Agency's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Series 2011O Municipal Bond Insurer shall reasonably request from time to time;

(ii) Notice of any draw upon the Series 2011O Bonds Debt Service Reserve Subaccount within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Series 2011O Required Reserve and (ii) withdrawals in connection with a refunding of Series 2011O Bonds;

(iii) Notice of any default known to the Trustee or Agency within five Business Days after knowledge thereof;

(iv) Notice of the resignation or removal of the Trustee and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto;

(v) Notice of the commencement of any proceeding by or against the Agency commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(vi) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Series 2011O Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and

(ix) All reports, notices and correspondence to be delivered to Series 2011O Bondholders under the terms of the Related Documents.

(f) The Series 2011O Municipal Bond Insurer shall have the right to consent to the appointment of a successor Trustee under the Indenture.

(g) The rights granted to the Series 2011O Municipal Bond Insurer under the Indenture or any other Related Document to request, consent to or direct any action are rights granted to the Series 2011O Municipal Bond Insurer in consideration of its issuance of the Series 2011O Municipal Bond Insurance Policy. Any exercise by the Series 2011O Municipal Bond Insurer of such rights is merely an exercise of the Series 2011O Municipal Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of the Series 2011O Municipal Bond Insurer, affirmative or negative, as to whether the consent of the Bondowners or any other person is required in addition to the consent of the Series 2011O Municipal Bond Insurer.

(h) The Series 2011O Municipal Bond Insurer shall be entitled to pay principal or interest on the Series 2011O Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Series 2011O Municipal Bond Insurance Policy) and any amounts due on the Series 2011O Bonds as a result of acceleration of the maturity thereof in accordance with the

Indenture, whether or not the Series 2011O Municipal Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Series 2011O Municipal Bond Insurance Policy) or a claim upon the Series 2011O Municipal Bond Insurance Policy.]

Section 64.11. Redemption of Series 2011O Bonds. The Series 2011O Bonds are not subject to redemption prior to their respective stated maturity dates.

Section 64.12. Series 2011O Bonds Debt Service Reserve Subaccount. The Trustee shall establish and hold separately within the Bond Reserve Fund the Series 2011O Bonds Debt Service Reserve Subaccount. The Series 2011O Bonds Debt Service Reserve Subaccount shall at all times be equal to the Series 2011O Required Reserve and shall initially be funded from (i) proceeds of the Series 2011O Bonds in the amount of $__________[, and (ii) an cash contribution from the Agency in the amount of $__________]. The Series 2011O Bonds Debt Service Reserve Subaccount shall be used solely for the purposes provided for under the Indenture.

ARTICLE LXV

MISCELLANEOUS

Section 65.01. Amendment. This Eighteenth Supplemental Indenture may be amended in the same manner, for the same purposes and subject to the same limitations as set forth in Article IX of the Indenture for amendment of the Indenture; provided, however, that with regard to any amendment of this Eighteenth Supplemental Indenture requiring consent of the Bondholders, the only consent that shall be required is that of the Holders of the Series 2011O Bonds.

Section 65.02. Limitation of Rights. (a) With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Eighteenth Supplemental Indenture or the Series 2011O Bonds is intended or shall be construed to give to any person other than the Holders of the Series 2011O Bonds, and the Series 2011O Municipal Bond Insurer any legal or equitable right, remedy or claim under or in respect to this Eighteenth Supplemental Indenture or any covenants, conditions and provisions herein contained, this Eighteenth Supplemental Indenture and all of the covenants, conditions and provisions herein being intended to be and being for the sole and exclusive benefit of the Holders of the Series 2011O Bonds and the Series 2011O Municipal Bond Insurer.

(b) To the extent the Indenture and this Eighteenth Supplemental Indenture confers upon or grants to the Series 2011O Municipal Bond Insurer any right, remedy, or claim under or by reason of the Indenture and this Eighteenth Supplemental Indenture, the Series 2011O Municipal Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, granted or given hereunder.

Section 65.03. Severability. If any provision of this Eighteenth Supplemental Indenture is held to be in conflict with any applicable statute or rule of law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

The invalidity of any one or more phrases, sentences, clauses, or Sections of this Eighteenth Supplemental Indenture shall not affect the remaining portions of this Eighteenth Supplemental Indenture or any part thereof.

Section 65.04. Captions. The captions or headings in this Eighteenth Supplemental Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Eighteenth Supplemental Indenture.

Section 65.05. Governing Law. This Eighteenth Supplemental Indenture shall be governed by and interpreted in accordance with the laws of the State of California.

Section 65.06. Effective Date. This Eighteenth Supplemental Indenture shall become effective upon its execution and delivery.

Section 65.07. Execution in Several Counterparts. This Eighteenth Supplemental Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Agency and Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 65.08. Trustee Not Responsible. The Trustee shall not be responsible for and makes no representation with respect to the accuracy of the recitals hereto or the representations and warranties of the Agency herein.

Section 65.09. Notices to the Series 2011O Bond Insurer. Notices to the Series 2011O Municipal Bond Insurer shall be sent to the following:

[name of Series 2011O Bond Insurer]
[address]

Attention:
Telephone:
Telecopier:

In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

IN WITNESS WHEREOF, M-S-R PUBLIC POWER AGENCY has caused this Eighteenth Supplemental Indenture to be signed in its name and attested by its duly authorized officers, respectively, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its name by its duly authorized officers, respectively, all as of the day and year first above written.

M-S-R PUBLIC POWER AGENCY

By ____
General Manager

Attest:

____
Secretary

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By ____
Authorized Officer

Exhibit A

[FORM OF SERIES 2011O BOND]

R-____ $__________

M-S-R PUBLIC POWER AGENCY

SAN JUAN PROJECT SUBORDINATE LIEN REVENUE BOND,

SERIES 2011O

Issue Date	Interest Rate	Maturity Date	CUSIP
	%	July 1, ____	

REGISTERED OWNER:

PRINCIPAL SUM:

M-S-R Public Power Agency, a joint exercise of powers agency, duly organized and existing under and pursuant to the laws of the State of California (the "Agency"), for value received hereby promises to pay (but only out of the Pledged Revenues and other funds hereinafter referred to) to the Registered Owner specified above, or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter referred to), the Principal Sum specified above, together with interest thereon, from the Issue Date specified above until the principal hereof shall have been paid at the rate of interest set forth above, all as described in that certain Indenture of Trust, dated as of June 1, 1994, by and between the Agency and U.S. Bank National Association, as trustee (the "Trustee"), as amended by the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth and Eighteenth Supplemental Indentures of Trust, each by and between the Agency and the Trustee (collectively, the "Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture.

Interest hereon will be payable, in lawful money of the United States of America by wire transfer to such address as has been furnished to the Trustee in writing by the Registered Owner hereof, on each January 1 and July 1, commencing July 1, 2011, and on the Maturity Date specified above. The final Interest Payment Date of any Bond shall be the Maturity Date specified above.

The principal hereof and redemption premium, if any, hereon shall be payable on the Maturity Date specified above or prior redemption of this Bond only upon surrender hereof at the Principal Office of the Trustee, as that term is defined in the Indenture.

The Agency, the Trustee, any paying agent, and any agent of the Agency or the Trustee may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, and the Agency and the Trustee, any paying agent or any such agent of the Agency or the Trustee shall not be affected by notice to the contrary.

This Bond is one of a duly authorized issue of M-S-R Public Power Agency San Juan Project Subordinate Lien Revenue Bonds (the “Bonds”) of the series and designation indicated on the face hereof. Said authorized issue of Bonds consists and may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as provided in the Indenture, and is issued under and pursuant to the Joint Exercise of Powers Act (Sections 6500 et seq.) of the Government Code of State of California, as amended, and all laws amendatory thereof or supplemental thereto (collectively, the “Act”). This Bond is issued under and pursuant to the Indenture, copies of which are on file at the office of the Secretary of the Agency and at the Principal Office of the Trustee.

The Bonds are revenue obligations of the Agency and are payable, as to the interest thereon, principal thereof and any premiums upon the redemption thereof, solely from Pledged Revenues (except amounts on deposit in the Rebate Fund) and from certain funds pledged under the Indenture, subject in all respects to the superior pledge of Net Revenues under the First Lien Resolution and the provisions of the Indenture permitting the application of Pledged Revenues for the purposes and on the terms and conditions set forth in the Indenture. All the Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of and charge and lien upon the Pledged Revenues and such pledged funds, and the Pledged Revenues and such pledged funds constitute a trust fund for the security and payment of the interest on and principal of and redemption premiums, if any, on the Bonds as provided in the Indenture. The general fund of the Agency is not liable and the full faith and credit of the Agency is not pledged for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds, and no tax or assessment shall ever be levied or collected to pay the interest on or principal of or redemption premiums, if any, on the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge or lien upon any property of the Agency or any of its income or receipts except the Pledged Revenues and such pledged funds, and neither the payment of the interest on or principal of or redemption premiums, if any, on the Bonds is a general debt, liability or obligation of the Agency or a debt, liability or obligation of any of the public agencies who are parties to the agreement creating the Agency.

Reference is hereby made to the Act and to the Indenture for a description of the terms on which the Bonds are issued, for the provisions with regard to the nature and extent of the Pledged Revenues and for the rights of the Registered Owners of the Bonds, and all the terms of the Act and the Indenture are hereby incorporated herein and constitute a contract between the Agency and the Registered Owner from time to time of this Bond, to all the provisions of which the Registered Owner of this Bond, by such Registered Owner’s acceptance hereof, agrees and consents. Each taker and subsequent Registered Owner hereof shall have recourse to all provisions of the Act and the Indenture and shall be bound by all the terms and conditions thereof.

The Agency has agreed and covenanted that, for the payment of the interest on and principal of and redemption premium, if any, on this Bond and all other Bonds issued under the Indenture when due, there has been created and will be maintained by the Trustee a special fund into which all Pledged Revenues shall be deposited, and as an irrevocable charge the Agency has allocated the Pledged Revenues solely to the payment of the interest on and principal of and redemption premiums, if any, on the Bonds, and the Agency will pay promptly when due the interest on and principal of and redemption premium, if any, on this Bond and all other Bonds of this issue out of said special fund, all in accordance with the terms and provisions set forth in the Indenture.

The Series 2011O Bonds shall bear interest computed on the basis of a 360-day year of twelve (12) 30-day months. Interest on any Bond shall be computed from the Interest Payment Date to which interest has been paid or duly provided for next preceding the date of authentication thereof, unless (a) such date of authentication shall be prior to the first Interest Payment Date, in which case interest shall be computed from the dated date of the Bonds or (b) such date of authentication shall be an Interest Payment Date to which interest on such Bond has been paid in full or duly provided for, in which case interest shall be computed from such date of authentication; provided, that if interest on any Bond shall be in default, the Bond or Bonds issued in exchange for such Bond surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on such Bond or, if no interest has been paid or duly provided for on such Bond, from the dated date of the Bonds. Interest accrued on any Bond shall be paid on each Interest Payment Date for the period from and including the date described in the preceding sentence to and including the day before such Interest Payment Date (whether or not such day is a Business Day).

The Series 2011O Bonds are not subject to redemption prior to their respective stated maturity dates.

If an Event of Default shall occur, the principal of and premium, if any, on all Bonds and interest accrued thereon may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, except that the Indenture provides that in certain events such declaration and its consequences may be rescinded by the bearers and Registered Owners of not less than a majority in aggregate principal amount of Bonds then outstanding.

The rights and obligations of the Agency and of the Registered Owners of the Bonds may be amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such amendment, without the consent of the Bondholders as set forth in the Indenture, shall (1) extend the maturity of the principal of, or the mandatory redemption date of, or interest on, this Bond, or (2) reduce the principal amount of, or the redemption premium, if any, or the rate of interest on, this Bond, (3) permit a preference or priority of this Bond over any other Bond, except as provided in the Indenture, (4) create a lien prior to the lien of the Indenture, except as provided in the Indenture, or (5) reduce the aggregate principal amount of this Bond required for any consent to any amendment, all as more fully set forth in the Indenture.

The Bonds do not constitute an indebtedness of the Agency within the meaning of any constitutional or statutory debt limitation or restriction, and neither the Commission of the Agency nor the Agency nor any commissioner, officer or employee thereof shall be liable for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds otherwise than from the Pledged Revenues and such pledged funds as provided in the Indenture.

It is hereby certified that all acts, conditions and things required by law to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the amount of this Bond, together with all other obligations of the Agency, does not exceed any limit prescribed by the laws of the State of California and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

IN WITNESS WHEREOF, M-S-R Public Power Agency has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its President and by the facsimile signature of its Secretary, has caused its seal to be reproduced hereon and has caused this Bond to be dated as of the Issue Date specified above.

M-S-R PUBLIC POWER AGENCY

[SEAL]

By ______________________________
President

By ______________________________
Secretary

NOT VALID UNLESS AUTHENTICATED BELOW BY THE TRUSTEE

CERTIFICATION OF AUTHENTICATION

This is one of the fully registered Bonds described in the within-mentioned Indenture, which has been registered on ________________.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By ______________________________
Authorized Officer

STATEMENT OF INSURANCE

______________________ ("__________________"), ___________, __________, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to U.S. Bank National Association, San Francisco, California, or its successor, as paying agent for the Bonds (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from ________________ or the Paying Agent.

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto ________________ the within-mentioned Bond and hereby irrevocably constitute and appoint ________________ attorney, to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated:

Note:

The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed:

Social Security Number, Taxpayer
Identification Number or Other
Identifying Number of Assignee:

NOTICE: Signature must be
guaranteed by a member firm of
the New York Stock Exchange,
the National Association of
Securities Dealers or a
commercial bank or trust company;

DRAFT
OH&S
3/7/11

EIGHTEENTH SUPPLEMENTAL INDENTURE OF TRUST

between

M-S-R PUBLIC POWER AGENCY

and

U.S. BANK NATIONAL ASSOCIATION,

as Trustee

Relating to

$[par amount]

M-S-R Public Power Agency
San Juan Project Subordinate Lien Revenue Bonds, Series 2011O

Dated as of April 1, 2011

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M-S-R PUBLIC POWER AGENCY

$__________
San Juan Project Subordinate Lien Revenue Bonds, Series 2011O

April __, 2011

PURCHASE CONTRACT

M-S-R Public Power Agency
1231 Eleventh Street
Modesto, California 95354

Ladies and Gentlemen:

The undersigned, J.P. Morgan Securities LLC, as the underwriter (the "Underwriter") hereby offers to enter into this Purchase Contract with you, the M-S-R Public Power Agency (the "Power Agency"), which, upon the Power Agency's acceptance of this offer, will be binding upon the Power Agency and the Underwriter. This offer is made subject to acceptance hereof by the Power Agency at or before 11:59 P.M., California time, on the date hereof. If this offer is not so accepted, this offer will be subject to withdrawal by the Underwriter upon notice delivered by the Underwriter to the Power Agency at any time prior to the acceptance hereof by the Power Agency. Upon acceptance, this Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon the Power Agency and the Underwriter. All capitalized terms used herein not otherwise defined herein shall have the respective meanings ascribed thereto in the Official Statement (as hereinafter defined).

The Power Agency acknowledges and agrees that: (i) the purchase and sale of the Series 2011O Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between the Power Agency and the Underwriter; (ii) in connection with such transaction, the Underwriter is acting solely as a principal and not as an agent or a fiduciary of the Power Agency; (iii) the Underwriter has not assumed (individually or collectively) a fiduciary responsibility in favor of the Power Agency with respect to: (x) the offering of the Series 2011O Bonds or the process leading thereto (whether or not any Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the Power Agency on other matters); or (y) any other fiduciary or contractual obligation to the Power Agency except the obligations expressly set forth in this Purchase Contract; and (iv) the Power Agency has consulted with its own legal and financial advisors to the extent it deemed appropriate in connection with the offering of the Series 2011O Bonds.

1. Purchase and Sale. Upon the terms and conditions and in reliance on the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the Power Agency upon delivery through the facilities of The Depository Trust

Company to the Underwriter, all (but not less than all) of the $________ aggregate principal amount of the Power Agency's San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds"). The Series 2011O Bonds shall be dated the date of delivery thereof, and shall bear interest, mature on the dates and in the amounts set forth in Schedule I attached hereto and shall otherwise be as described in the Official Statement (as hereinafter defined). The aggregate purchase price for the Series 2011O Bonds shall be $__________ (representing the $____________ aggregate principal amount of the Series 2011O Bonds, [plus/minus] an aggregate original issue [premium/discount] of $_________, less Underwriter's discount of $________).

The Series 2011O Bonds shall be as described in, and shall be issued and secured under the provisions of the Indenture of Trust, dated as of June 1, 1994, by and between the Power Agency and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by the Eighteenth Supplemental Indenture of Trust, dated as of April 1, 2011, providing for the issuance of the Series 2011O Bonds (collectively, the "Indenture"). The Series 2011O Bonds shall be payable as provided in the Indenture.

The Series 2011O Bonds are being issued to provide funds, together with other available moneys, to (i) current refund $34,370,000 principal amount of the Power Agency's $39,425,000 aggregate outstanding principal amount of San Juan Project Refunding Revenue Bonds, Series I (the "Series I Bonds"), (ii) fund a reserve fund for the Series 2011O Bonds, and (iii) pay costs of issuance of the Series 2011O Bonds.

2. Delivery of Official Statement and Other Documents. The Power Agency shall deliver, or cause to be delivered, to the Underwriter at the time of or prior to the Closing (as hereinafter defined) (a) certified copies of the Indenture, (b) certified copies of the proceedings of the Commission of the Power Agency adopted March ____, 2011 authorizing and approving the issuance of the Series 2011O Bonds, and (c) a signed copy of the financial statements of the Power Agency and the report of Baker Tilly Virchow Krause, LLP (the "Auditors") thereon contained as Appendix B to the Official Statement. The Power Agency has previously delivered executed counterparts or certified copies of the Tucson/San Juan Project Power Sales Agreement between the Power Agency, Modesto Irrigation District, the City of Santa Clara and the City of Redding, dated as of November 29, 1982, and all amendments to the date hereof (the "Power Sales Agreement"), the Interconnection Agreement between Tucson Electric Power Company and the Power Agency, effective November 23, 1982, as amended (the "TEP Interconnection Agreement") and the Early Purchase and Participation Agreement between Public Service Company of New Mexico and the Power Agency, dated as of September 26, 1983, as amended (the "Early Purchase and Participation Agreement"). The TEP Interconnection Agreement and the Early Purchase and Participation Agreement are herein sometimes referred to as the "Project Agreements." Modesto Irrigation District, the City of Santa Clara and the City of Redding are herein sometimes referred to as the "Participants."

The Power Agency hereby ratifies, confirms and approves the use and distribution by the Underwriter prior to the date hereof of the preliminary official statement dated April ____, 2011 relating to the Series 2011O Bonds (including any amendments or supplements as have been approved by the Power Agency and the Underwriter) (the "Preliminary Official Statement").

The Power Agency has deemed final the Preliminary Official Statement as of the date thereof for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the "Rule"), except for information permitted to be omitted therefrom by the Rule. The Power Agency hereby acknowledges that the Preliminary Official Statement has been made available to investors on the internet. The Power Agency hereby agrees to deliver or cause to be delivered to the Underwriter within seven (7) business days of the date hereof, copies of the final Official Statement in sufficient quantity and in electronic format (including all information permitted to be omitted by the Rule and any amendments and supplements to such Official Statement as have been approved by the Power Agency and the Underwriter (the "Official Statement")) to enable the Underwriter to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board (the "MSRB"). The Underwriter hereby agrees to file a copy of the Official Statement with the MSRB through the Electronic Municipal Marketplace Access (EMMA) website as soon as practicable after the date hereof.

The Power Agency and the Participants undertake, pursuant to Continuing Disclosure Agreements (the "Continuing Disclosure Agreements"), to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking is set forth in the Official Statement.

3. Public Offering. The Underwriter agrees to make a bona fide public offering of the Series 2011O Bonds at not in excess of the initial public offering prices set forth in the Official Statement. The Underwriter reserves the right to change such initial public offering prices as the Underwriter deems necessary in connection with the marketing of the Series 2011O Bonds. The Power Agency hereby authorizes the Underwriter to use the forms or copies of the Indenture, the Power Sales Agreement, the Project Agreements, the Continuing Disclosure Agreements, and the Official Statement and the information contained therein in connection with the public offering and sale of the Series 2011O Bonds.

4. Power Agency Representations, Warranties and Agreements. The Power Agency represents and warrants to and agrees with the Underwriter that, as of the date hereof and as of the date of the Closing (as hereinafter defined):

(a) The Power Agency has been duly and validly created, under and pursuant to the Joint Exercise of Powers Act of the State of California, being California Government Code Sections 6500-6599.5, inclusive, as amended (the "Act") and a Joint Exercise of Powers Agreement, dated as of April 29, 1980, and amended and restated as of November 17, 1982, and further amended as of June 26, 1990 and as of January 24, 2006 (the "Joint Powers Agreement") and is a duly and validly existing public entity under the laws of the State of California, and has full legal right, power and authority to acquire, construct, operate, improve and finance the San Juan Project as contemplated by the Project Agreements, the Power Sales Agreement and the Official Statement;

(b) The Power Agency has full legal right, power and authority to enter into this Purchase Contract, to execute and deliver the Indenture and the Continuing Disclosure Agreement to which it is a party and to issue, sell and deliver the Series 2011O Bonds as provided herein; by official action of the Power Agency taken prior to or concurrently with the acceptance hereof, the Power Agency has duly authorized the Indenture in accordance with the Act and the Joint Powers Agreement; the Indenture has been duly authorized, executed and delivered and has not been amended, modified or rescinded except as may be set forth in the Official Statement; the Power Agency has duly authorized and approved the execution and delivery of, and the performance by the Power Agency of its obligations contained in, the Indenture, the Series 2011O Bonds, the Continuing Disclosure Agreement to which it is a party and this Purchase Contract and the consummation by it of all other transactions contemplated by the Power Sales Agreement, the Project Agreements, the Indenture, the Official Statement, the Continuing Disclosure Agreement to which it is a party and this Purchase Contract to have been performed or consummated at or prior to the date of the Closing; and the Power Agency is and will be in compliance with the provisions of the Indenture;

(c) The Power Agency had at the respective dates of execution and has full legal right, power and authority to enter into Project Agreements and the Power Sales Agreement. By official action of the Power Agency, the Power Agency has duly authorized and approved the execution and delivery and the performance by the Power Agency of the Project Agreements and the Power Sales Agreement; the Project Agreements and the Power Sales Agreement are in full force and effect and have not been amended, modified or rescinded since their respective dates of execution except as provided by amendments, copies of which shall have been furnished to the Underwriter on or before the date hereof; the Project Agreements and the Power Sales Agreement constitute valid and legally binding agreements of the Power Agency enforceable against the Power Agency in accordance with their terms, provided, however, that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights and by the limitations on legal remedies against public agencies in the State of California;

(d) The Power Agency is not in breach of or default under any applicable constitutional provision, law or administrative regulation of the State of California or the United States, or any agency or department of either, or the Joint Powers Agreement, or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Power Agency is a party or to which the Power Agency or any of its properties or other assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument, in any such case to the extent that the same would have a material and adverse effect upon the business or properties or financial condition of the Power Agency; except as stated in the Official Statement, to the best knowledge of the Power Agency there is no default by any party to the Project Agreements or the Power Sales Agreement and no legal impediment to the performance thereof by any party thereto not disclosed in the Official Statement; and the execution and delivery of the Indenture, the Series 2011O Bonds, the Continuing Disclosure Agreement to which it is a party, this Purchase Contract, the Power Sales Agreement and the Project Agreements, and compliance with the provisions on the Power Agency's part contained therein, will not conflict with or constitute a breach of or default under the Act, the Joint Powers Agreement or under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Power Agency is a party or to which the Power Agency or any of its properties or other assets is otherwise subject, nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or other assets of the Power Agency under the terms of any such law, regulation or instrument, except as provided or permitted by the Series 2011O Bonds, the Indenture, the Continuing Disclosure Agreement to which it is a party, the Power Sales Agreement or the Project Agreements;

(e) All approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Power Agency of its obligations under this Purchase Contract, the Indenture, the Continuing Disclosure Agreement to which it is a party, the Power Sales Agreement or the Series 2011O Bonds have been, or prior to the Closing will have been, duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or other securities laws of any state in connection with the offering and sale of the Series 2011O Bonds; and except as disclosed by the Official Statement all approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction required of the Power Agency in connection with the San Juan Project and the Project Agreements, have been duly obtained;

(f) Under the laws of the State of California, the authority of the Power Agency and the Participants to determine, fix, impose and collect rates and charges for electric power and energy sold and delivered is not presently subject to the general regulatory jurisdiction of the California Public Utilities Commission (the “CPUC”) and presently neither the CPUC nor any regulatory authority of the State of California (except in the case of the California Energy Commission as described in the Official Statement) nor the Federal Energy Regulatory Commission approves such rates and charges;

(g) The Series 2011O Bonds, when issued, authenticated and delivered in accordance with the Indenture and sold to the Underwriter as provided herein, will be valid and legally enforceable obligations of the Power Agency in accordance with their terms and the terms of the Indenture; and the Indenture will provide, for the benefit of the holders from time to time of the Series 2011O Bonds and any parity bonds issued under the Indenture (“Parity Bonds”), a legally valid and binding interest in and to the funds pledged under the Indenture as described in the Official Statement;

(h) The Indenture has been duly authorized, and on the date of the Closing will be duly executed and delivered and will provide, for the benefit of the holders from time to time of the Series 2011O Bonds and Parity Bonds, a legally valid and binding pledge and assignment of the Pledged Revenues, the funds and accounts pledged under the Indenture and an assignment of the rights of the Power Agency to collect Revenues under the Power Sales Agreement, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein;

(i) The Series 2011O Bonds, the Indenture, the Continuing Disclosure Agreements, the Power Sales Agreement and the Project Agreements will conform on the date of the Closing in all material respects to the descriptions thereof contained in the Official Statement;

(j) Except as contemplated by the Official Statement, the Power Agency will not have incurred any material liabilities, direct or contingent, or entered into any material transaction, in each case other than in the ordinary course of its business, and there shall not have been any material adverse change in the condition, financial or physical, of the Power Agency or its properties or other assets;

(k) There is no action, suit, proceeding, inquiry or investigation, at law or in equity before or by any court, government agency or public board or body, pending or, to the best knowledge of the Power Agency, threatened, which may affect the existence of the Power Agency or the titles of its officers to their respective offices, or which may affect or which seeks to prohibit, restrain or enjoin the sale, issuance or delivery of the Series 2011O Bonds or the collection of the Pledged Revenues of the Power Agency pledged or to be pledged to pay the principal of and interest on the Series 2011O Bonds, or which in any way contests or affects the validity or enforceability of the Series 2011O Bonds, the Indenture, the Continuing Disclosure Agreement to which it is a party, this Purchase Contract, the Power Sales Agreement or any of the Project Agreements, or which may result in any material adverse change in the operation of the San Juan Project or the business, properties, other assets or financial condition of the Power Agency, or which contests in any way the completeness or accuracy of the Official Statement or which contests the power of the Power Agency or any authority or proceedings for the issuance, sale or delivery of the Series 2011O Bonds, or the execution and delivery of the Indenture, the Continuing Disclosure Agreement to which it is a party, this Purchase Contract, the Power Sales Agreement, or any of them, or the Project Agreements, or any of them, nor, to the best knowledge of the Power Agency, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Series 2011O Bonds, the Indenture, the Continuing Disclosure Agreement to which it is a party, the Power Sales Agreement, any of the Project Agreements or this Purchase Contract;

(l) The Power Agency will furnish such information, execute such instruments and take such other action not inconsistent with law in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Series 2011O Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Series 2011O Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for the distribution of the Series 2011O Bonds; provided that the Power Agency shall not be obligated to take any action that would subject it to the general service of process in any state or jurisdiction where it is not now so subject;

(m) As of the date thereof, the Preliminary Official Statement did not, except as revised by the Official Statement, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect;

(n) As of the date thereof and at all times subsequent thereto up to and including the 25th day following the End of the Underwriting Period (as hereinafter defined), the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made not misleading;

(o) If between the date hereof and the 25th day following the End of the Underwriting Period, an event occurs which might or would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the Power Agency will notify the Underwriter, and, if in the opinion of the Power Agency or the Underwriter, or their respective counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Power Agency will forthwith prepare and furnish to the Underwriter (at the expense of the Power Agency) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to prospective purchasers, not misleading. For the purposes of this subsection, between the date hereof and the 25th day following the End of the Underwriting Period, the Power Agency will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(p) If the information contained in the Official Statement is amended or supplemented pursuant to clause (o) of this Section, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such clause) at all times subsequent thereto up to and including the 25th day following the End of the Underwriting Period, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading;

(q) After the Closing, the Power Agency will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which shall be disapproved by counsel for the Underwriter;

(r) The financial statements of the Power Agency contained as Appendix B to the Official Statement do and will fairly present the financial position and results of operations of the Power Agency as of the dates and for the periods therein set forth in accordance with generally accepted accounting principles applied consistently;

(s) The Power Agency has never failed to comply in all material respects with the Rule to provide annual reports or notices of material events specified in such Rule;

(t) Any certificate signed by an authorized official of the Power Agency and delivered to the Underwriter in connection with the issuance, sale and delivery of the Series 2011O Bonds shall be deemed a representation and warranty by the Power Agency to the Underwriter as to the statements made therein; and

(u) As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the Series 2011O Bonds shall mean the earlier of (i) the date of the Closing unless the Power Agency shall have been notified in writing to the contrary by the Underwriter on or prior to the date of the Closing, or (ii) the date on which the End of the Underwriting Period for the Series 2011O Bonds has occurred under the Rule; provided, however, that the Power Agency may treat as the End of the Underwriting Period for the Series 2011O Bonds the date specified as such in a notice from the Underwriter stating the date which is the end of the Underwriting Period.

5. The Closing. At 8:00 A.M., California time, on April __, 2011, or at such earlier or later time or date as may be mutually agreed upon by the Power Agency and the Underwriter, the Power Agency will, subject to the terms and conditions hereof, deliver the Series 2011O Bonds to the Underwriter through the book-entry system of The Depository Trust Company, by Fast Automated Securities Transfer (FAST), together with the other documents hereinafter mentioned, and, subject to the terms and conditions hereof, the Underwriter will accept such delivery and pay the purchase price of the Series 2011O Bonds as set forth in Section 1 hereof in immediately available funds to the Power Agency (such delivery of and payment for the Series 2011O Bonds is herein called the "Closing"). The Power Agency, with the assistance of the Underwriter, shall cause CUSIP identification numbers to be printed on the Series 2011O Bonds, but neither the failure to print such number on any Series 2011O Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriter to accept delivery of and pay for the Series 2011O Bonds in accordance with the terms of this Purchase Contract. The delivery of the documents required hereunder shall occur at the offices of Orrick, Herrington & Sutcliffe LLP, San Francisco, California or such other place as shall have been mutually agreed upon by the Power Agency and the Underwriter.

6. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and agreements of the Power Agency contained herein and in reliance upon the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Power Agency of its obligations hereunder, both as of the date hereof and as of the date of the Closing. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Series 2011O Bonds shall be conditioned upon the performance by the Power Agency of its obligations to be performed hereunder and under such

documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) The representations, warranties and agreements of the Power Agency contained herein shall be true, complete and correct on the date hereof and on and as of the date of the Closing, as if made on the date of the Closing;

(b) At the time of the Closing, the Indenture, the Continuing Disclosure Agreements, the Power Sales Agreement and the Project Agreements shall be in full force and effect and shall not have been amended, modified or supplemented since the date hereof, and the Official Statement as delivered to the Underwriter on the date hereof shall not have been supplemented or amended, except in any such case as may have been consented to by the Underwriter;

(c) At the time of the Closing, all official action of the Power Agency relating to this Purchase Contract, the Series 2011O Bonds, the Indenture, the Continuing Disclosure Agreements, the Power Sales Agreement and the Project Agreements taken as of the date hereof shall be in full force and effect and shall not have been amended, modified or supplemented;

(d) At the time of the Closing, except as contemplated by the Official Statement, there shall have been no material adverse change in the operations of, or the status of the permits and approvals required for, San Juan Unit No. 4, or in the capacity and energy arrangements of the Power Agency with respect thereto, or the transmission arrangements related to such capacity and energy as the foregoing matters are described in the Official Statement, nor shall there have been any material adverse change in the business, properties or financial condition or obligations of the Power Agency or any of its Participants, except as contemplated by the Official Statement;

(e) At or prior to the Closing, the Underwriter shall have received copies of each of the following documents:

(1) An opinion or opinions, dated the date of the Closing and addressed to the Power Agency, of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Power Agency, in substantially the form included as Appendix F in the Official Statement;

(2) An opinion or opinions, dated the date of the Closing and addressed to the Underwriter, of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Power Agency, in substantially the form attached hereto as Exhibit A;

(3) A defeasance opinion, dated the date of the Closing and addressed to the Power Agency and the Underwriter, of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Power Agency to the effect that the refunded Series I Bonds have been deemed to have been paid and are no longer outstanding pursuant to the terms of the bond resolution pursuant to which such Series I Bonds were issued;

(4) An opinion, dated the date of the Closing and addressed to the Underwriter, of Fulbright & Jaworski L.L.P., Los Angeles, California, counsel for the Underwriter, in substantially the form attached hereto as Exhibit B;

(5) A certificate, dated the date of the Closing, signed by the President of the Commission and the General Manager of the Power Agency in substantially the form attached hereto as Exhibit C (but in lieu of or in conjunction with such certificate, the Underwriter may, in its sole discretion, accept certificates or opinions of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Power Agency, or of other counsel acceptable to the Underwriter, that in the opinion of such counsel the issues raised in any pending or threatened litigation referred to in such certificate are without substance or that the contentions of all plaintiffs therein are without merit);

(6) Certificates, dated the date of Closing, signed by the appropriate official of each of the Participants, in substantially the form attached hereto as Exhibit D, provided that the Underwriter may, in its sole discretion, accept an opinion from the City Attorney, General Counsel or other counsel of each Participant acceptable to the Underwriter, that in the opinion of such counsel the issues raised in any pending or threatened litigation referred to in such certificate are without substance or that the contentions of the plaintiffs therein are without merit;

(7) Certificates, dated the date of Closing, signed by the appropriate official of each of the Participants, in form and substance satisfactory to the Underwriter, to the effect that such official has compared dollar amounts (or percentages derived from such dollar amounts) and other financial information contained in the Official Statement (to the extent that such dollar amounts, percentages and other financial information are derived from the general accounting records of the Participant subject to the internal controls of the accounting system of the Participant or are derived directly from such records by analysis and computations) with the results obtained from inquiries, a reading of such general accounting records and other procedures specified in such certificate and found such dollar amounts, percentages and other financial statements to be in agreement with such results, except as otherwise specified in such certificate;

(8) An opinion of counsel to each Participant, dated the date of Closing, addressed to the Underwriter, in substantially the form attached hereto as Exhibit E;

(9) An opinion of Steven C. Gross, General Counsel to the Power Agency, dated the date of Closing, addressed to the Underwriter, in substantially the form attached hereto as Exhibit F;

(10) A copy, duly certified by the Secretary of the Power Agency and by the Secretary, City Clerk or other appropriate officer of each of the Participants, of the Power Sales Agreement;

(11) Certified copies of all proceedings relating to the authorization and issuance of the Series 2011O Bonds certified by the Secretary or the Assistant Secretary of the Power Agency;

(12) Tax and arbitrage certifications by the Power Agency with respect to the Series 2011O Bonds in form and substance satisfactory to Bond Counsel and evidence of the preparation for filing of IRS Form 8038-G with respect to the Series 2011O Bonds;

(13) A DTC blanket letter of representation, executed by the Power Agency and accepted by DTC;

(14) Evidence that the Series 2011O Bonds are rated "___" by Standard & Poor's Rating Services and "____" by Fitch Ratings and such ratings are in full force and effect as of the Closing Date;

(15) A certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture and the Continuing Disclosure Agreements, together with a certificate to the effect that:

(a) the Trustee is a national association existing under the laws of the United States of America;

(b) the Trustee has full corporate trust powers and authority to serve as Trustee under the Indenture and the Continuing Disclosure Agreements; and

(c) the Trustee's actions in executing and delivering the Indenture and the Continuing Disclosure Agreements, are in full compliance with and do not conflict with any applicable law or governmental regulation currently in effect and do not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound;

(16) An opinion of counsel to the Trustee, dated the date of the Closing and addressed to the Power Agency and the Underwriter, to the effect that the Indenture and the Continuing Disclosure Agreements, have been duly authorized, executed and delivered by the Trustee and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture and the Continuing Disclosure Agreements, each constitutes a legal, valid and binding obligation of the Trustee, enforceable in accordance with its respective terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity;

(17) A copy of any Blue Sky Memorandum with respect to the Series 2011O Bonds, prepared by Underwriter's Counsel; and

(18) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the representations and warranties of the Power Agency contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Power Agency on or prior to the date of the Closing of all respective agreements then to be performed and conditions then to be satisfied by it.

All of the evidence, opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Contract shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriter with such exception and modifications as shall be approved by the Underwriter and as shall not in the opinion of the Underwriter materially impair the investment quality of the Series 2011O Bonds. The opinion of Orrick, Herrington & Sutcliffe LLP, which is referred to in clause (1) of Section 6(e) of this Purchase Contract shall be deemed satisfactory provided it is substantially in the form included in the Official Statement as Appendix F, and the opinions and certificates referred to in clauses (2), (4), (5), (6), (8) and (9) of such Section shall be deemed satisfactory provided they are substantially in the forms attached as exhibits to this Purchase Contract.

If the Power Agency shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Series 2011O Bonds contained in this Purchase Contract or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Series 2011O Bonds shall be terminated for any reason permitted herein, all obligations of the Underwriter hereunder may be terminated by the Underwriter at, or at any time prior to, the date of the Closing by written notice to the Power Agency from the Underwriter and neither the Underwriter nor the Power Agency shall have any further obligations hereunder. In the event that the Underwriter fails (other than for a reason permitted by this Purchase Contract) to accept and pay for the Series 2011O Bonds at the Closing, the amount of one percent (1%) of the principal amount of the Series 2011O Bonds shall be paid by the Underwriter to the Power Agency as liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriter and the acceptance of such amount shall constitute a full release and discharge of all claims and rights of the Power Agency against the Underwriter.

7. Termination. The Underwriter may terminate this Purchase Contract by notice to the Power Agency from the Underwriter in the event that between the date hereof and the date of the Closing the market price or marketability of the Series 2011O Bonds shall have been materially adversely affected in the reasonable judgment of the Underwriter, by reason of any of the following: (a) legislation shall be enacted by the Congress of the United States or introduced in or reported out of a committee of or adopted by either House thereof, or a decision by a court of the United States or the Tax Court of the United States shall be rendered or a ruling, regulation or official statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made, with respect to federal or California taxation of revenues or other income of the general character expected to be derived by the Power Agency or similar entity; (b) there shall have occurred the declaration of war or any outbreak or escalation of hostilities or acts of terrorism involving the United States or

other national or international emergency or calamity, crisis or event, relating to the effective operation of the government of, or the financial community in the United States; (c) there shall be in force a general suspension of trading on any national securities exchange or any material disruption in commercial banking or securities settlement or clearing services; (d) a general banking moratorium shall have been established by federal, New York or California authorities; (e) an order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Series 2011O Bonds, or the issuance, offering or sale of the Series 2011O Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect; (f) the downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal, of any rating of the Series 2011O Bonds by any rating agency then rating the Series 2011O Bonds; (g) any event shall have occurred or shall exist which, in the reasonable opinion of the Underwriter, makes untrue or incorrect, as of such time, in any material respect, any statement or information contained in the Official Statement or which is not reflected in the Official Statement, but should be reflected there in order to make the statements and information contained therein not misleading as of such time.

8. Expenses.

(a) The Underwriter shall be under no obligation to pay, and the Power Agency shall pay, any expenses incident to the performance of the obligations of the Power Agency hereunder, including, but not limited to: (i) the cost of preparation and printing or other reproduction of the Indenture; (ii) the cost of the preparation of the Series 2011O Bonds; (iii) the cost of preparation and printing of the Official Statement (in reasonable quantities); (iv) the fees and disbursements of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Power Agency; (v) the fees and disbursements of any consultants to the Power Agency, and other experts or advisers retained by the Power Agency; and (vi) the fees for bond ratings.

(b) The Underwriter shall pay: (i) the cost of preparation and printing of this Purchase Contract, and any Preliminary Blue Sky Survey (it being understood that the printing cost of any Preliminary Blue Sky Survey shall not constitute part of the recoverable expenses in the Underwriter's discount) and all fees and expenses relating to the qualification of the Series 2011O Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such jurisdictions of the United States as the Underwriter may determine; (ii) all advertising expenses in connection with the public offering of the Series 2011O Bonds; and (iii) all other expenses incurred by them or any of them in connection with the public offering of the Series 2011O Bonds, including the fees and disbursements of counsel retained by them.

9. Notices. Any notice or other communication to be given to the Power Agency under this 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 Underwriter under this Purchase Contract may be given by delivering the same in writing to the Underwriter at: J.P. Morgan Securities LLC, 1999 Avenue of the Stars, 31st Floor, Los Angeles, California 90067, Attention: Managing Director.

10. Parties in Interest. This Purchase Contract is made solely for the benefit of the Power Agency and the Underwriter (including its successors or assigns) and no other person shall acquire or have any right hereunder or by virtue hereof. Unless this Purchase Contract is terminated pursuant to the last paragraph of Section 6 hereof, all of the representations, warranties and agreements of the Power Agency contained in this Purchase Contract shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of any of the Underwriter; (ii) delivery of and payment for the Series 2011O Bonds pursuant to this Purchase Contract; or (iii) any termination of this Purchase Contract.

11. Effectiveness. This Purchase Contract shall become effective upon the execution hereof by the Power Agency President and shall be valid and enforceable at the time of such acceptance.

12. Counterparts. This Purchase Contract may be executed in several counterparts, which together shall constitute one and the same instrument.

13. California Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California.

14. Entire Agreement. This Purchase Contract when accepted by the Power Agency in writing as heretofore specified shall constitute the entire agreement between the Power Agency and the Underwriter.

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15. Headings. The headings of the Sections of this Purchase Contract are inserted for convenience only and shall not be deemed to be part hereof.

Very truly yours,

J.P. MORGAN SECURITIES LLC

By:______________________________________
Managing Director

M-S-R PUBLIC POWER AGENCY

By:__________________________________
President

Exhibit A

FORM OF OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP

[Date of Closing]

J.P. Morgan Securities LLC
Los Angeles, CA

Ladies and Gentlemen:

We have served as Bond Counsel to M-S-R Public Power Agency (the "Power Agency") in connection with the issuance and sale of its San Juan Project Subordinate Lien Revenue Bonds, Series 2011O in the aggregate principal amount of $__________ (the "Series 2011O Bonds") to you, as underwriter (the "Underwriter") under the Purchase Contract, dated April __, 2011 (the "Purchase Contract"), between the Power Agency and the Underwriter. Capitalized terms used herein which are defined in said Purchase Contract shall have the meanings specified therein or, if not defined therein, in the Official Statement dated April __, 2011, relating to the Series 2011O Bonds.

We have examined, among other things, the Act, the Joint Powers Agreement, and the Indenture, the proceedings of the Commission of the Power Agency with respect to the execution and delivery of the Indenture and the authorization and issuance of the Series 2011O Bonds, the proceedings with respect to the due execution and delivery by the Participants of the Power Sales Agreement with the Power Agency, the proceedings of the Power Agency with respect to the authorization, execution and delivery of the Project Agreements, the Power Sales Agreement, the Purchase Contract, the Continuing Disclosure Agreements, the Official Statement, the opinion of counsel to the Power Agency, certificates of the Power Agency, the Trustee and others, and such other documents, opinions and matters relating to the Power Agency, the Series 2011O Bonds, the Indenture, the Project Agreements and the Power Sales Agreement, and have made such other examination of applicable California and federal law as we have deemed necessary in giving this opinion.

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 or events are taken or do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Series 2011O Bonds has concluded with their issuance and we disclaim any obligation to update this opinion. 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 Power Agency. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. In addition, we call attention to the fact that the rights and obligations under the Purchase Contract, the Continuing Disclosure Agreements, the Project Agreements, the Power Sales Agreement and the Indenture 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, and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities, irrigation districts or public power agencies, of which the Power Agency is one in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in or subject to the lien of the Indenture or the accuracy or sufficiency of the description of any such property contained therein.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the opinion that:

(a) the Power Agency is duly existing as a public entity and under the constitution and laws of California has full legal right, power and authority to acquire, construct, operate, maintain and improve the Project and in accordance therewith has entered into such of the Project Agreements that have heretofore been executed and entered into by the Power Agency;

(b) the execution and delivery of the Project Agreements, the Power Sales Agreement, the Purchase Contract, the Continuing Disclosure Agreements and the Official Statement have been duly authorized by the Power Agency;

(c) the Project Agreements as have heretofore been executed and entered into by the Power Agency and, assuming due authorization and execution by the other parties thereto, are valid and enforceable against the Power Agency in accordance with their respective terms;

(d) the Purchase Contract and the Continuing Disclosure Agreements have been duly authorized, executed and delivered by the Power Agency, and assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the Power Agency in accordance with their respective terms;

(e) the Series 2011O 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;

(f) the statements contained in the Official Statement on the cover and under the captions "INTRODUCTION – Security and Sources of Payment for the Series 2011O Bonds," "THE SERIES 2011O BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS," and "TAX MATTERS" and in Appendices D, E and F (excluding any material that may be treated as included under such captions by cross-reference), insofar as such statements constitute summaries of certain provisions of the Series 2011O Bonds, the Indenture, the Continuing Disclosure Agreements and the form and content of our final approving opinion with respect to the Series 2011O Bonds, are accurate in all material respects; and

(g) the Indenture provides for the benefit of the holders from time to time of the Series 2011O Bonds a legally valid and binding interest in Pledged Revenues and other moneys pledged thereto under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

We are not passing upon and do not assume any responsibility for the accuracy (except as explicitly stated in paragraph (f) above), completeness or fairness of any of the statements contained in the Official Statement and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. We do not assume any responsibility for any electronic version of the Official Statement, and assume that any such version is identical in all respects to the printed version. In our capacity as bond counsel in connection with issuance of the Series 2011O Bonds, we participated in conferences with your representatives, Fulbright & Jaworski L.L.P., as your counsel, representatives of the Power Agency, the Participants, their respective counsel, accountants, financial advisors, and others, during which conferences (which did not extend beyond the date of the Official Statement) the contents of the Official Statement and related matters were discussed. Based on our participation in the above-referenced conferences, and in reliance thereon and on the records, documents, certificates, opinions and matters herein mentioned (as set forth above), subject to the limitations on our role as bond counsel, we advise you as a matter of fact and not opinion that, during such conferences no information came to the attention of the attorneys in our firm rendering legal services in connection with such issuance which caused us to believe that the Official Statement as of its date and as of the date hereof (except for any CUSIP numbers, financial, accounting, statistical, economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, or any information about book-entry, DTC, and the information contained in Appendices A, B, C and G included or referred to therein, which we expressly exclude from the scope of this paragraph and as to which we express no opinion or view) contained or contains any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. No responsibility is undertaken or opinion rendered with respect to any other disclosure document, materials or activity.

On the date hereof, we rendered our opinion approving the validity of the Series 2011O Bonds. You may rely on said opinion as if it were addressed to you.

This letter is furnished by us as Bond Counsel to the Power Agency. No attorney-client relationship has existed or exists between our firm and yourselves in connection with the Series 2011O Bonds or by virtue of this letter. This letter is delivered to you as Underwriter of the Series 2011O Bonds, is solely for your benefit as Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Series 2011O Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

Exhibit B

FORM OF OPINION OF FULBRIGHT & JAWORSKI L.L.P.

[Date of Closing]

J.P. Morgan Securities LLC
Los Angeles, CA

Ladies and Gentlemen:

We have acted as counsel to you, J.P. Morgan Securities LLC, as underwriter (the "Underwriter") under the Purchase Contract, dated April ___, 2011 (the "Purchase Contract"), between the Underwriter and the M-S-R Public Power Agency (the "Power Agency") in connection with the purchase by the Underwriter from the Power Agency of the Power Agency's $__________ San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds").

The Series 2011O Bonds are being issued pursuant to the Marks Roos Local Bond Pooling Act of 1985, consisting of Article 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6584), and an Indenture of Trust, dated as of June 1, 1994, by and between the Power Agency and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by the Eighteenth Supplemental Indenture of Trust, dated as of April 1, 2011, providing for the issuance of the Series 2011O Bonds (collectively, the "Indenture").

The Series 2011O Bonds are being issued to provide funds, together with other available moneys, to (i) current refund $34,370,000 principal amount of the Power Agency's $39,425,000 aggregate outstanding principal amount of San Juan Project Refunding Revenue Bonds, Series I (the "Series I Bonds"), (ii) fund a reserve fund for the Series 2011O Bonds, and (iii) pay costs of issuance of the Series 2011O Bonds.

Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Contract, or if not defined therein, in the Indenture.

We have reviewed, among other documents, the Purchase Contract, the Official Statement dated April ___, 2011 with respect to the Series 2011O Bonds (the "Official Statement"), the Indenture, the Continuing Disclosure Agreements, certificates of the Power Agency, the Participants, the Trustee, and others, the opinions referred to in the Purchase Contract and such other records, opinions and documents, and we have made such investigations of law, as we have deemed appropriate as a basis for the conclusions hereinafter expressed.

In arriving at the conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referenced above (including the accuracy of all factual matters represented and legal conclusions contained therein), including (without limitation) representations and legal conclusions regarding the due authorization, execution, delivery, validity and enforceability of the Indenture, the Continuing Disclosure Agreements and the Series 2011O Bonds, the due authorization of the Official Statement, and the exclusion from the gross income of the owners thereof for federal income tax purposes of interest on the Series 2011O Bonds. We have assumed that all records, documents, certificates and opinions that we have reviewed, and the signatures thereto, are genuine.

We understand that with respect to the matters covered by the approving opinion of Orrick Herrington & Sutcliffe LLP ("Bond Counsel"), dated the date hereof, you have received a letter from Bond Counsel allowing you to rely on such opinion.

This opinion is limited to matters governed by the federal securities law of the United States, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

Based on and subject to the foregoing, and in reliance thereon, we are of the opinion that the Series 2011O 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.

Assuming the due authorization, execution and delivery of the Continuing Disclosure Agreements by the parties thereto and the enforceability thereof, the Continuing Disclosure Agreements satisfy section (b)(5)(i) of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended.

In our capacity as counsel to you, we have rendered certain legal advice and assistance to you in connection with the preparation of the Official Statement. Rendering such legal advice and assistance involved, among other things, discussions and inquiries concerning various legal matters, review of certain records, documents and proceedings, and participation in meetings and telephonic conferences with, among others, your representatives and representatives of the Power Agency, counsel to the Power Agency, the Participants, counsel to the Participants, Montague DeRose and Associates, LLC. as financial advisor, and Bond Counsel, at which meetings and during which telephonic conferences the contents of the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance to you in connection with the preparation of the Official Statement which cause us to believe that the Official Statement as of its date or as of the date hereof (excluding therefrom financial, demographic and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to the treatment of the Series 2011O Bonds or the interest, discount or premium, if any, related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption "TAX MATTERS" and in Appendices B through G to the Official Statement; as to all of which we express no view) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Official Statement.

We are furnishing this letter to you solely for your benefit as Underwriter. This letter may not be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or filed with any governmental or other administrative agency or other person or entity for any purpose without our prior written consent. This letter is not intended to, and may not, be relied upon by the owners of the Series 2011O Bonds. Our engagement with respect to this matter terminates upon the delivery of this letter to you at the time of the closing relating to the Series 2011O Bonds, and we have no obligation to update this letter.

Respectfully submitted,

Exhibit C

M-S-R PUBLIC POWER AGENCY
CERTIFICATE

We, Allen Short, President of the Commission of M-S-R Public Power Agency (the "Power Agency") and Martin Hopper, General Manager of the Power Agency, hereby certify that:

1. To the best of our knowledge and belief, the representations and warranties of the Power Agency contained in the Purchase Contract dated April __, 2011 (the "Purchase Contract"), between the Power Agency and the Underwriter named therein, in connection with the sale by the Power Agency to the Underwriter of $_________ in aggregate principal amount of its San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds"), are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing.

2. No action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency or public board or body, is pending or, to the best of our knowledge, threatened against the Power Agency, affecting the existence of the Power Agency or the titles of its officers to their respective offices or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Series 2011O Bonds or the collection of the revenues of the Power Agency pledged or to be pledged to pay the principal of and interest on the Series 2011O Bonds, or in any way contesting or affecting the validity or enforceability of the Series 2011O Bonds, the Purchase Contract, the Continuing Disclosure Agreements, the Power Sales Agreement, or the Project Agreements, or contesting in any way the completeness or accuracy of the Official Statement or any supplement or amendment thereto, or contesting the powers of the Power Agency or any authority or proceedings for the issuance, sale and delivery of the Series 2011O Bonds, or the execution and delivery of the Indenture, the Purchase Contract, the Continuing Disclosure Agreements, the Power Sales Agreement or the Project Agreements or the performance of the Power Agency's obligation under the Indenture, the Purchase Contract, the Continuing Disclosure Agreements, the Power Sales Agreement or the Project Agreements nor to the best of our knowledge, is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Series 2011O Bonds, the Indenture, the Power Sales Agreement, the Project Agreements or the Purchase Contract.

3. To the best of our knowledge, no event affecting the Power Agency has occurred since the date of the Official Statement which should be disclosed in the Official Statement so that the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and which has not been disclosed in a supplement or amendment to the Official Statement.

4. The Power Agency has complied with all agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the date hereof pursuant to the Purchase Contract.

5. All capitalized terms employed herein which are not otherwise defined shall have the same meanings as in the Purchase Contract.

____________, 2011

____
President of the Commission
of the Power Agency

____
General Manager

Exhibit D

PARTICIPANT CERTIFICATE

I, [Name], [Mayor or other appropriate official] of the [city/irrigation district of ___________] do hereby certify:

(a) The information on pages _____ through _____ in the Official Statement dated April __, 2011 (the "Official Statement") relating to $__________ M-S-R Public Power Agency San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds") concerning [the Member] was as of the date thereof, and is as of the date hereof, true and correct in all material respects and did not and does not omit any statement or information which is necessary to make the statements and information contained therein, in light of the circumstances under which they were made, not misleading;

(b) Since ___________, 2010 [the date of the end of the last fiscal year for which audited financials are available], with respect to its electric system, [the Member] has not incurred any financial liabilities, direct or contingent, or entered into any transactions and there has not been any adverse change in the condition, financial or physical, of the electric system of [the Member], in any case that would materially and adversely affect the ability of [the Member] to meet its obligations under the Power Sales Agreement entered into by M-S-R Public Power Agency and the Participants in the San Juan Project described in the Official Statement; and

(c) (1) Other than as set forth in the Official Statement, no litigation is pending or, to my knowledge, threatened in any court to restrain or enjoin the performance of the Power Sales Agreement or in any way contesting or affecting the validity of such agreement, and (2) other than as set forth in the Official Statement, there is no litigation pending or, to my knowledge, threatened against [the Member] or involving any of the property or assets which comprise the electric system of [the Member] which involves the possibility of any judgment that would materially and adversely affect the ability of [the Member] to meet its obligations under the Power Sales Agreement.

_____________, 2011 [Member]

____

Exhibit E

FORM OF OPINION OF COUNSEL TO PARTICIPANT

[Date of Closing]

J.P. Morgan Securities LLC
Los Angeles, CA

Ladies and Gentlemen:

I am [we are] acting as counsel to the __________ (the "Participant") in connection with the sale of $________ San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds") of the M-S-R Public Power Agency (the "Power Agency"). As such counsel I [we] have examined and am [are] familiar with (i) those documents relating to the existence, organization and operation of the Participant, (ii) an executed counterpart of the Tucson/San Juan Project Power Sales Agreement, effective November 29, 1982, as amended to the date hereof (the "Power Sales Agreement") among the Participant, the Power Agency, and [list other Members of M-S-R,] (iii) all necessary documentation of the Participant relating to the authorization, execution and delivery of the Power Sales Agreement, (iv) a Continuing Disclosure Agreement, dated April ___, 2011 (the "Continuing Disclosure Agreement") by and between the Participant and U.S. Bank National Association (the "Trustee"), and (v) an Official Statement of the Power Agency, dated April __, 2011 relating to the Series 2011O Bonds.

Based upon the foregoing and an examination of such other information, papers and documents as I [we] deem necessary or advisable to enable me [us] to render this opinion, including the Constitution and laws of the State of California together with the [charter], other governing instruments, ordinances and public proceedings of the Participant, I [we] am [are] of the opinion that:

1. The Participant is a [state form of organization] __________, duly created, organized and existing under the laws of the State of California and duly qualified to furnish electric service within said State.

2. The Participant has the authority and right to execute, deliver and perform the Power Sales Agreement, and the Participant has complied with the provisions of applicable law in all matters relating to the transactions contemplated by the Power Sales Agreement.

3. The Continuing Disclosure Agreement has been duly authorized, executed and delivered by the Participant and, assuming that the Trustee has all the requisite power and authority, and has taken all necessary action, to execute and deliver such Continuing Disclosure Agreement, constitutes the legal, valid and binding agreement of the Participant enforceable against it in accordance with its terms, except that the rights and

remedies set forth therein may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally and by limitations on legal remedies against public agencies in the State of California.

4. The Power Sales Agreement has been duly authorized, executed and delivered by the Participant, is in full force and effect and, assuming that the Power Agency has all the requisite power and authority, and has taken all necessary action, to execute and deliver such Power Sales Agreement, constitutes the legal, valid and binding agreement of the Participant enforceable against it in accordance with its terms, except that the rights and remedies set forth therein may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally and by limitations on legal remedies against public agencies in the State of California.

5. Payments by the Participant under the Power Sales Agreement will constitute an operating expense of the Participant and are to be made solely from the Revenues of its Electric System as provided in Section 13 and 19 of the Power Sales Agreement.

6. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the Participant of the Power Sales Agreement, or the performance by the Participant of its obligations thereunder. Under the laws of the State of California, the authority of the Participant to determine, fix, impose and collect rates and charges for electric power and energy sold and delivered is not presently subject to the general regulatory jurisdiction of the California Public Utilities Commission (the "CPUC") and presently neither the CPUC nor any regulatory authority of the State of California (except in the case of the California Energy Commission as described in the Official Statement) nor the Federal Energy Regulatory Commission approves such rates and charges.

7. The authorization, execution and delivery of the Power Sales Agreement and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the Participant, and commitment, agreement or other instrument to which the Participant is a party or by which it or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which the Participant (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to the Participant and its affairs.

8. The statements as to legal matters related to the Participant in the Official Statement under the caption "THE PARTICIPANTS" and in Appendix A are true, correct and complete in all material respects and do not omit any material fact which in my [our] opinion, should be included or referred to therein so as to make the information or statements made therein not misleading.

9. There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body, pending or, to my [our] knowledge, threatened against or affecting the Participant or any entity affiliated with the Participant

or any of its officers in their respective capacities as such (nor to the best of my [our] knowledge is there any basis therefor), which questions the powers of the Participant referred to in paragraph 2 above or in connection with the transactions contemplated by the Official Statement, or the validity of the proceedings taken by the Participant in connection with the authorization, execution or delivery of the Power Sales Agreement, or wherein any unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Power Sales Agreement or the Official Statement, or which, in any way, would adversely affect the validity or enforceability of the Power Sales Agreement or, in any material respect, the ability of the Participant to perform its obligations under the Power Sales Agreement.

Very truly yours,

Exhibit F

FORM OF OPINION OF GENERAL COUNSEL TO M-S-R

[Date of Closing]

J.P. Morgan Securities LLC
Los Angeles, CA

Ladies and Gentlemen:

I am General Counsel to M-S-R Public Power Agency (the "Power Agency") and have served in such capacity in connection with the issuance and sale of its $_________ San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds") to the Underwriter named in the Purchase Contract dated April __, 2011, by and between the Power Agency and the Underwriter, relating to the Series 2011O Bonds. Terms used herein which are defined in said Purchase Contract shall have the meanings specified therein or, if not defined therein, in the Official Statement dated April __, 2011, relating to the Series 2011O Bonds.

I have examined, among other things, the Act, the Joint Powers Agreement, the Indenture, the proceedings of the Commission of the Power Agency with respect to the authorization and issuance of the Series 2011O Bonds, the proceedings with respect to the due execution and delivery by the Participants of the Power Sales Agreement with the Power Agency, the proceedings of the Power Agency with respect to the authorization, execution and delivery of the Project Agreements, the Power Sales Agreement, the Purchase Contract and the Official Statement and such certificates and other documents relating to the Power Agency, the Series 2011O Bonds, the Indenture, the Project Agreements, the Power Sales Agreement, and have made such other examination of applicable California and federal law as I have deemed necessary in giving this opinion.

Based upon the foregoing, I am of the opinion that:

(a) Under the laws of the State of California, the authority of the Power Agency to determine, fix, impose and collect rates and charges for electric power and energy sold and delivered is not presently subject to the general regulatory jurisdiction of the California Public Utilities Commission (the "CPUC") and presently neither the CPUC nor any regulatory authority of the State of California (except in the case of the California Energy Commission as described in the Official Statement) nor the Federal Energy Regulatory Commission approves such rates and charges.

(b) The Power Sales Agreement has been duly authorized, executed and delivered by the Power Agency and constitutes a legal, valid and binding agreement of the Power Agency enforceable against the Power Agency in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights.

(c) The execution and delivery of the Indenture, the Purchase Contract and the Series 2011O Bonds by the Power Agency, and compliance with the provisions of the Indenture, the Purchase Contract and the Series 2011O Bonds, will not conflict with or constitute a breach of or default under any federal or California law, administrative regulation, court decree of any United States or California court, or ordinance, resolution or agreement to which the Power Agency is a party.

(d) The statements as to legal matters contained in the Official Statement under the captions "M-S-R PUBLIC POWER AGENCY," "RATE REGULATION," "LITIGATION," are true, correct and complete in all material respects and do not omit any material fact, which, in my opinion, should be included or referred to therein so as to make the information or statements made therein not misleading.

(e) Based upon my participation in the preparation of the Official Statement as general counsel to the Power Agency and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, I have no reason to believe that the Official Statement (except for Appendices A through G and summaries thereof and references thereto, and the maps and schematic, graphic, pictorial, financial and statistical information included in the Official Statement, as to which I express no view) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Very truly yours,

SCHEDULE I

Maturity Date (July 1)	Principal Amount	Interest Rate	Price or Yield
	$	%	%

PRELIMINARY OFFICIAL STATEMENT DATED APRIL _____, 2011

NEW ISSUE – FULL BOOK-ENTRY ONLY Ratings: See "RATINGS" herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to M-S-R PPA, 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 Series 2011O Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2011O 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 Series 2011O 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 Series 2011O Bonds. See "TAX MATTERS" herein.

$__________*

M-S-R PUBLIC POWER AGENCY
(California)
San Juan Project Subordinate Lien Revenue Bonds, Series 2011O

Dated: Date of Delivery **Due: July 1, as shown below**

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

The Series 2011O Bonds are being issued by M-S-R Public Power Agency ("M-S-R PPA") to provide funds, together with other available moneys, to (i) current refund a portion of M-S-R PPA's outstanding San Juan Project Refunding Revenue Bonds, Series I (the "Series I Bonds") issued to refinance a portion of the costs of the Southwest Transmission Project, (ii) fund a reserve account, and (iii) pay costs of issuance of the Series 2011O Bonds, all as more fully described herein. See "PLAN OF REFUNDING" herein.

The Series 2011O Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 1994, by and between M-S-R PPA and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented (the "Indenture"). The Series 2011O Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Series 2011O Bonds. Purchasers will not receive securities certificates representing their interest in the Series 2011O Bonds purchased. Ownership interests in the Series 2011O Bonds will be in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2011O Bonds will be payable semiannually on January 1 and July 1 each year, commencing on July 1, 2011. Principal of and interest on the Series 2011O Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to its DTC participants for subsequent disbursement to the Beneficial Owners of the Series 2011O Bonds, as described herein.

The Series 2011O Bonds are <u>not</u> subject to redemption prior to maturity.

The Series 2011O Bonds are revenue obligations of M-S-R PPA payable solely from and secured by a pledge of Net Revenues subordinate to M-S-R PPA's San Juan Project Revenue Bonds to be outstanding upon delivery of the Series 2011O Bonds and any additional San Juan Project Revenue Bonds that may hereafter be issued by M-S-R PPA, as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011O BONDS – Additional Senior Lien Bonds" for a discussion of the limitations on additional San Juan Project Revenue Bonds that may be issued pursuant to the Indenture. The Series 2011O Bonds are secured on a parity with M-S-R PPA's San Juan Project Subordinate Lien Revenue Bonds to be outstanding upon delivery of the Series 2011O Bonds and any additional San Juan Project Subordinate Lien Revenue Bonds that may hereafter be issued by M-S-R PPA, as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011O BONDS – Outstanding Subordinate Lien Bonds" and "– Additional Subordinate Lien Bonds" herein.

Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof or M-S-R PPA or any member of M-S-R PPA is pledged to the payment of the Series 2011O Bonds. M-S-R PPA has no taxing power.

MATURITY SCHEDULE*

Maturity Date (July 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP Number†
2012	$	%	%	
2013				
2014				
2015				
2016				
2017				
2018				

The Series 2011O Bonds will be offered when, as and if issued and received by the Underwriter, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to M-S-R PPA. Certain legal matters will be passed upon for M-S-R PPA by Porter Simon, Truckee, California, its General Counsel, and for the Underwriter by Fulbright & Jaworski L.L.P., Los Angeles, California. It is expected that the Series 2011O Bonds will be available for delivery, through the DTC book-entry system in New York, New York by Fast Automated Securities Transfer (FAST)on or about April ___, 2011.

J.P. Morgan

* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, M-S-R nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

Dated: _____________, 2011

No dealer, broker, salesperson or other person has been authorized by M-S-R PPA or the Underwriter to give any information or to make any representation other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by M-S-R PPA or the Underwriter. 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 Series 2011O Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Series 2011O Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

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.

The information set forth in this Official Statement has been furnished by M-S-R PPA and the Participants and other official sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of M-S-R PPA or the Participants since the date hereof.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website. M-S-R PPA also maintains a website. However, the information presented therein is not part of this Official Statement, is not incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the Series 2011O Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2011O BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "THE PROJECT – The San Juan Generating Station," "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS," "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY" and "RATE REGULATION" in this Official Statement and in the description of each of the Participant's operations in APPENDIX A hereto. Forward-looking statements in APPENDIX A and elsewhere in this Official Statement are subject to risks and uncertainties, including particularly those relating to fuel costs and availability, wholesale and retail electric energy and capacity prices, federal and state legislation and regulations, competition and industry restructuring, and the economies of the service areas of the Participants.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. M-S-R PPA does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

M-S-R PUBLIC POWER AGENCY
(CALIFORNIA)

1231 Eleventh Street
Post Office Box 4060
Modesto, California 95352
(209) 526-7300

Commission

Allen Short	President
Patrick Kolstad	Vice President
Paul Hauser	Commissioner

Executive Staff and Other Officers

Martin Hopper	General Manager
Lou Hampel	Treasurer
[Vacant]	Controller
Steven C. Gross	Secretary and General Counsel

Participants

Modesto Irrigation District
City of Santa Clara
City of Redding

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Financial Advisor

Montague DeRose and Associates, LLC
Walnut Creek, California

Trustee

U.S. Bank National Association
San Francisco, California

Independent Accountants

Baker Tilly Virchow Krause, LLP
Madison, Wisconsin

Verification Agent

Causey Demgen & Moore Inc.
Denver, Colorado

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OFFICIAL STATEMENT

Relating to

$________*
M-S-R PUBLIC POWER AGENCY
(California)
San Juan Project Subordinate Lien Revenue Bonds, Series 2011O

INTRODUCTION

This Introduction is qualified in its entirety by the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Series 2011O Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

Purpose

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning M-S-R Public Power Agency ("M-S-R PPA" or the "Agency"), a joint exercise of powers agency comprised of a California irrigation district and two California cities which have entered into the Power Sales Agreement with the Agency, M-S-R PPA's San Juan Project (the "Project" or the "San Juan Project," as more fully described herein), and the Agency's $________* San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (the "Series 2011O Bonds"). The Series 2011O Bonds are being issued to provide funds, together with other available moneys, to (i) current refund a portion of M-S-R PPA's outstanding San Juan Project Refunding Revenue Bonds, Series I (the "Series I Bonds") issued to refinance a portion of the costs of the Southwest Transmission Project, (ii) fund a reserve account and (iii) pay costs of issuance of the Series 2011O Bonds, all as more fully described herein. See "PLAN OF REFUNDING" and "THE PROJECT."

M-S-R PPA

M-S-R PPA is a public entity, without taxing power, created pursuant to the provisions of California law governing the joint exercise of powers, being California Government Code Sections 6500-6599.5, inclusive, as amended (the "Act"), and a Joint Exercise of Powers Agreement (the "Joint Powers Agreement"), first made as of April 29, 1980 and amended and restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Powers Agreement, dated June 26, 1990 and Amendment Number 2 to the Amended and Restated Joint Powers Agreement, dated January 24, 2006, among the Modesto Irrigation District ("Modesto" or the "District"), an irrigation district in the State of California, the City of Santa Clara ("Santa Clara"), a charter city and municipal corporation in the State of California, and the City of Redding ("Redding"), a general law city and municipal corporation in the State of California. See "M-S-R PUBLIC POWER AGENCY." Modesto, Santa Clara and Redding are hereinafter referred to as the "Members" or the "Participants." See "THE PARTICIPANTS."

In 2008, the M-S-R PPA Participants formed the M-S-R Energy Authority ("M-S-R EA"), a joint exercise of powers agency organized pursuant to a Joint Exercise of Powers Agreement, dated as of

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* Preliminary, subject to change.

July 15, 2008, entered into pursuant to the Act, for the purpose, among other things, of entering into contracts and issuing bonds to assist the Participants in financing the acquisition of supplies of electricity, natural gas or environmental commodities for use by each Participant in connection with their respective electric utility operations. The projects undertaken by M-S-R EA (and the rights and obligations of M-S-R EA in connection therewith) are separate from, and independent of, the San Juan Project and any other projects undertaken by M-S-R PPA.

Security and Sources of Payment for the Series 2011O Bonds

The Series 2011O Bonds are issued pursuant to an Indenture of Trust, dated as of June 1, 1994, between M-S-R PPA and U.S. Bank National Association, as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by the Eighteenth Supplemental Indenture of Trust, dated as of April 1, 2011, providing for the issuance of the Series 2011O Bonds (the Indenture of Trust as amended and supplemented being referred to herein as the "Indenture"). The Series 2011O Bonds are revenue obligations of M-S-R PPA payable solely from and secured by a pledge of the Pledged Revenues (except amounts on deposit in the Rebate Fund), as defined in the Indenture.

"Pledged Revenues" generally consist of all Net Revenues (including the right to collect Revenues under the Power Sales Agreement) which are deposited in the Surplus Fund established under the Senior Lien Bond Resolution adopted by M-S-R PPA on June 16, 1983, as amended and supplemented from time to time (the "Senior Lien Bond Resolution") pursuant to which M-S-R PPA's San Juan Project Revenue Bonds are issued. The Series 2011O Bonds are junior and subordinate to M-S-R PPA's $18,020,000 aggregate principal amount of senior lien San Juan Project Revenue Bonds to be outstanding on the date of delivery of the Series 2011O Bonds and any additional senior lien San Juan Project Revenue Bonds that may hereafter be issued by M-S-R PPA pursuant to the Senior Lien Bond Resolution (collectively, the "Senior Lien Bonds"). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011O BONDS – Additional Senior Lien Bonds" for a discussion of the limitations on additional Senior Lien Bonds that may be issued pursuant to the Indenture. In addition to the Series 2011O Bonds, there will be outstanding under the Indenture $310,180,000 aggregate principal amount of San Juan Project Subordinate Lien Revenue Bonds upon the delivery of the Series 2011O Bonds. The outstanding San Juan Project Subordinate Lien Bonds, together with any additional San Juan Project Subordinate Lien Revenue Bonds that may hereafter be issued by M-S-R PPA as described herein (collectively, the "Subordinate Lien Bonds") are payable on a parity with the Series 2011O Bonds. In addition, M-S-R PPA has executed certain swap agreements, the payments to be made by M-S-R PPA under which are payable on a parity with the Subordinate Lien Bonds. Under certain circumstances, each of the swap agreements is subject to early termination, in which event M-S-R PPA could be obligated to make a substantial payment to the applicable swap provider. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS" and "M-S-R PUBLIC POWER AGENCY – Outstanding Indebtedness."

The Series 2011O Bonds are not obligations of the State of California, any public agency thereof (other than M-S-R PPA) or any Member of M-S-R PPA and neither the faith and credit nor the taxing power of any of the foregoing (including M-S-R PPA) is pledged for the payment of the Series 2011O Bonds. M-S-R PPA has no taxing power.

Reserve Account

A Series 2011O Bonds Debt Service Reserve Subaccount (the "Series 2011O Reserve Account") is established in the Bond Reserve Fund pursuant to the Indenture in an amount equal to the Series 2011O Required Reserve (as hereinafter defined). Moneys in the Series 2011O Reserve Account will be used solely for the purpose of paying the principal of and interest on the Series 2011O Bonds in the event the amounts on deposit in the Interest Fund and the Principal Fund are insufficient therefor. The Series 2011O Reserve Account may be funded from cash or one or more policies of insurance, surety bonds or letters of credit meeting the requirements of the Indenture (as defined in the Indenture, "Bond Reserve Fund Policies"). The Series 2011O Reserve Account is not available to pay the Senior Lien Bonds or any other Series of Subordinate Lien Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS – Reserve Account."

Reserve and Contingency Fund

The Indenture establishes a Reserve and Contingency Fund to be held by M-S-R PPA to be funded by monthly deposits from Pledged Revenues, in an amount equal to 1/12th of the amount necessary to maintain the Reserve and Contingency Fund in an amount equal to 10% of the amount required to be deposited in the Interest Fund and the Principal Fund for the next ensuing 12 months. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS – Reserve and Contingency Fund."

Rate Covenant

M-S-R PPA covenants in the Indenture that it will at all times establish and collect rates and charges sufficient to produce Net Revenues in each Fiscal Year which will equal or exceed 110% of the amounts required to be deposited in such Fiscal Year into (i) the Interest and Principal Fund and the Bond Anticipation Note Interest Fund established under the Senior Lien Bond Resolution and (ii) the Interest Fund and the Principal Fund established under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS – Rate Covenant."

Continuing Disclosure

Pursuant to Continuing Disclosure Agreements with the Trustee, M-S-R PPA and the Participants have each agreed for the benefit of holders and Beneficial Owners of the Series 2011O Bonds to provide in an annual report a copy of their respective annual audited financial statements, as well as certain operating data relating to the Project and the Participants' respective electric systems. Such audited financial statements are required to be prepared in accordance with generally accepted accounting principles. M-S-R PPA and each of the Participants will provide their respective audited financial statements and operating data (i) with respect to M-S-R PPA and Modesto, within 180 days after the end of the respective fiscal years of M-S-R PPA and Modesto; (ii) with respect to Santa Clara, within 210 days after the end of its fiscal year; and (iii) with respect to Redding, within 270 days after the end of its fiscal year. In addition, M-S-R PPA has agreed to give timely notice of the occurrence of certain enumerated events. The annual reports and notices of specified events will be filed by the Trustee on behalf of M-S-R PPA and the Participants with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website. The Municipal Securities Rulemaking Board has made such information available to the public without charge through such internet portal. For a summary of the Continuing Disclosure Agreements, see APPENDIX E – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENTS." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Except as described below, none of M-S-R PPA or the Participants has failed to comply in any material respect with any continuing disclosure undertaking under the Rule within the last five years.

Due to an administrative oversight, Modesto did not timely file the required financial information for the Fiscal Years ended December 31, 2005 and 2007. All information has since been filed as well as a notice of the late filing of such information. Modesto has also implemented procedures to timely file future annual reports. As of the date hereof, Modesto is in compliance in all material respects with its undertakings with regard to the provision of annual reports or notices of material events as required by the Rule.

Other Matters

This Official Statement speaks only as of its date, and the information and expression of opinions contained herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of M-S-R PPA or the Participants since the date hereof.

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

Additional Information

Additional information regarding the Official Statement may be obtained by contacting the Trustee or:

Lou Hampel
Treasurer
M-S-R Public Power Agency
1231 Eleventh Street
Post Office Box 4060
Modesto, California 95352
(209) 526-7301

PLAN OF REFUNDING

The Series 2011O Bonds are being issued pursuant to the Act and the Indenture to provide for the refunding of $34,370,000 aggregate outstanding principal amount of Series I Bonds maturing on July 1 in the years and amounts as set forth in the table below:

Refunded Series I Bonds

Maturity Date (July 1)	Principal Amount	Interest Rate
2012	$5,275,000	5.00%
2013	5,540,000	5.00
2014	5,815,000	5.00
2015	6,105,000	5.00
2016	3,810,000	5.00
2017	4,000,000	5.00
2018	3,825,000	5.00

A portion of the proceeds of the Series 2011O Bonds, together with other available moneys, will be deposited with the Trustee into the Series I Escrow Fund pursuant to the Indenture and applied to purchase certain direct obligations of the United States of America (the "Federal Securities"), the principal of and interest on which will be sufficient to redeem the Series I Bonds to be refunded on July 1, 2011, at a redemption price of 100% of the principal amount thereof, plus accrued interest. Upon such deposit, the refunded Series I Bonds will no longer be deemed to be outstanding except as to the rights of the owners of such refunded Series I Bonds to receive payment from the Series I Escrow Fund.

On the date of delivery of the 2011O Bonds, M-S-R PPA will receive a report from Causey Demgen & Moore Inc., verifying the adequacy of the mathematical computation concerning the adequacy of the cash deposited and held in the escrow fund, together with the maturing principal amounts of and interest earned on the Federal Securities, to pay the redemption of the refunded Series I Bonds on the redemption date therefor. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

In addition to $34,370,000 principal amount of Series I Bonds being refunded, there remains outstanding $5,055,000 principal amount of Series I Bonds which mature on July 1, 2011. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS – Outstanding Senior Lien Bonds" and "– Outstanding Subordinate Lien Bonds."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2011O Bonds are as follows:

Sources:	
Series 2011O Bonds par amount	$
[Plus/Less] Original Issue [Premium/Discount]	
Transfer from refunded Series I Bonds funds and accounts	
Total Sources	$
Uses:	
Deposit to Series I Escrow Fund	$
Deposit to Series 2011O Reserve Account	
Costs of Issuance[(1)]	
Underwriter's Discount	
Total Uses	$

(1) Includes legal, financing and consulting fees, rating agency fees, verification agent fees, printing costs and other miscellaneous expenses.

THE SERIES 2011O BONDS

General

The Series 2011O Bonds will be issued in the aggregate principal amount set forth on the cover of this Official Statement. The Series 2011O Bonds will be dated and will bear interest at the rates and mature on the dates and in the amounts set forth on the cover page of this Official Statement. Ownership interests in the Series 2011O Bonds will be in denominations of $5,000 or any integral multiple thereof.

Interest on the Series 2011O Bonds is payable on July 1, 2011, and semiannually thereafter on January 1 and July 1 of each year.

The Series 2011O Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2011O Bonds. Ownership interests in the Series 2011O Bonds may be purchased in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Series 2011O Bonds purchased. Principal of and interest on the Series 2011O Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to its DTC participants for subsequent disbursement to the Beneficial Owners of the Series 2011O Bonds, as described herein. So long as Cede & Co. is the registered owner of the Series 2011O Bonds, references herein to the owners or registered owners of the Series 2011O Bonds shall mean Cede & Co., and not the Beneficial Owners of the Series 2011O Bonds. See APPENDIX C – "BOOK-ENTRY ONLY SYSTEM."

No Redemption

The Series 2011O Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS

Pledge under the Indenture

Pursuant to the Indenture, M-S-R PPA has irrevocably pledged to the punctual payment of the principal of and interest on the Subordinate Lien Bonds (including the Series 2011O Bonds), all Pledged Revenues (except amounts on deposit in the Rebate Fund), subject in all respects to the senior pledge of Net Revenues under the Senior Lien Bond Resolution.

"Pledged Revenues" is generally defined in the Indenture to mean all of the Net Revenues deposited by the Trustee in the Revenue Fund, provided that prior to the discharge of the Senior Lien Bond Resolution, such Net Revenues are permitted to be treated as surplus under the Senior Lien Bond Resolution and have been set aside in the Surplus Fund established pursuant to the Senior Lien Bond Resolution.

"Net Revenues" is generally defined in the Indenture to mean all income and revenue derived by the Agency from the Improvements (hereinafter defined), including without limitation, all income and revenue of the Agency under the Power Sales Agreement, all income and revenue of the Agency on account of the sale, exchange or other disposition of electric capacity or energy derived by the Agency from the Improvements, all proceeds of insurance covering delays in the acquisition and construction of the Improvements and covering business interruption loss relating to the Improvements, and the net proceeds received by the Agency from the sale of all or any portion of the Improvements ("Revenues") less Maintenance and Operation Costs of the Agency (as defined in APPENDIX D hereto). Revenues also includes all income and revenue derived by the Agency under the Interconnection Agreement (as defined in APPENDIX D hereto) and on account of the sale, exchange or other disposition of electrical capacity or energy derived by the Agency from the Interconnection Agreement and all other Revenues derived by the Agency from any other source and designated as Revenues by the Agency.

"Improvements" is generally defined in the Indenture to mean (1) an undivided ownership interest of 28.8% in the San Juan Unit No. 4 coal-fueled electric generating facility, in San Juan County, New Mexico, acquired pursuant to the Purchase Agreement (as defined in APPENDIX D hereto);

(2) capacity rights in Tucson Electric Power Company's coal-fired generating facilities and combustion turbine facilities acquired pursuant to the Interconnection Agreement; (3) transmission facilities and ownership rights and capacity rights in transmission facilities to transmit to or for the account of the Agency and the parties to the Power Sales Agreement any electric energy generated at said Unit No. 4 or pursuant to rights acquired from Tucson Electric Power Company; and (4) all other rights, properties and improvements necessary for the Improvements described in clauses (1), (2) and (3) above, including, but not limited to, all fuel and water facilities and resources necessary therefor. See "THE PROJECT."

For further information regarding the allocation of Revenues with respect to the Senior Lien and the Subordinate Lien Bonds, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – The Indenture" and "– The Senior Lien Bond Resolution."

Power Sales Agreement

M-S-R PPA has entered into a Power Sales Agreement with the Participants, pursuant to which each Participant shall have an entitlement to its Participation Percentage and shall make payments therefor in accordance with the Power Sales Agreement. The Power Sales Agreement will continue in force until the later of (i) all bonds issued to finance the San Juan Project have been retired or full provision has been made for their payment, or (ii) the Agency's interest in the San Juan Project is terminated.

In the Power Sales Agreement each Participant has agreed to pay its share of Monthly Power Costs. Monthly Power Costs include amounts required to pay debt service on the bonds issued to finance the San Juan Project (including Improvements such as the Southwest Transmission Project; see "Outstanding Senior Lien Bonds" and "Additional Senior Lien Bonds" below), operation and maintenance costs and necessary replacements, and a reserve for contingencies. Monthly Power Costs do not include debt service payable on account of acceleration of maturity of bonds or other indebtedness related to the San Juan Project. Each Participant has agreed to make payments under the Power Sales Agreement on a "take-or-pay" basis as an operating expense of its electric system, whether or not the San Juan Project is completed, operable, operating or retired, and notwithstanding the suspension, interruption, interference, reduction or curtailment of San Juan Project output or the capacity and energy contracted for in whole or in part for any reason whatsoever.

The Participants' Participation Percentages are as follows:

Modesto Irrigation District	50%
City of Santa Clara	35
City of Redding	15

Upon failure of any Participant to make any payment constituting a default under the Power Sales Agreement, and if such defaulting Participant's Participation Percentage cannot be sold at a price equal to the defaulting Participant's obligations, the Participation Percentage of each non-defaulting Participant automatically shall be increased for the remaining term of such Power Sales Agreement in proportion to its Participation Percentage; provided, however, that the sum of such increases for any non-defaulting Participant shall not exceed 25% of its original Participation Percentage. M-S-R PPA will use its best efforts to sell at the best available price any portion of the Participation Percentage which the Participant is unable to otherwise sell or transfer. Any such transfers shall not discharge the defaulting Participant from obligations pursuant to the Power Sales Agreement. For further information concerning the Power Sales Agreement, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – The Power Sales Agreement."

Reserve Account

M-S-R PPA is required, pursuant to the Indenture, to establish and maintain the Series 2011O Reserve Account in the Bond Reserve Fund in the amount of $________ (the "Series 2011O Required Reserve").

The Series 2011O Reserve Account (or any portion thereof) may be funded from cash or one or more Bond Reserve Fund Policies (as defined in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – Eighteenth Supplemental Indenture of Trust") in an amount equal to the difference between the Series 2011O Required Reserve and the sums, if any, then on deposit in the Series 2011O Reserve Account. Upon the delivery of the Series 2011O Bonds, the Series 2011O Reserve Account will be funded from a portion of the proceeds of the Series 2011O Bonds.

Moneys in the Series 2011O Reserve Account will be used for the purpose of paying the principal and interest on the Series 2011O Bonds in the event the amounts on deposit in the Interest Fund and the Principal Fund are insufficient therefor. In the event of a withdrawal from the Series 2011O Reserve Account, the Trustee will set aside in the Series 2011O Reserve Account one-sixtieth (1/60) of the aggregate amount of each unreplenished prior withdrawal from such Series 2011O Reserve Account until there is on deposit in the Series 2011O Reserve Account a balance equal to the Series 2011O Required Reserve. No deposit need to be made in the Series 2011O Reserve Account so long as there is in such Series 2011O Reserve Account an amount equal to the Series 2011O Required Reserve, or when and if the sum of the amounts contained therein (excluding any Bond Reserve Fund Policy) and in the Interest Fund and in the Principal Fund is at least equal to the sum of the aggregate amount of all of the Series 2011O Bonds then outstanding and all of the interest then due or thereafter to become due on all such Series 2011O Bonds. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – Eighteenth Supplemental Indenture of Trust."

The Series 2011O Reserve Account secures only the Series 2011O Bonds and is not available for the payment of the Senior Lien Bonds or any other Series of Subordinate Lien Bonds. Amounts held in any other reserve account under the Indenture for any other Series of Subordinate Lien Bonds are not available for the payment of the Series 2011O Bonds.

Reserve and Contingency Fund

The Indenture establishes a Reserve and Contingency Fund to be held by M-S-R PPA. The Reserve and Contingency Fund is required to be funded by monthly deposits from Pledged Revenues in an amount equal to 1/12th of the amount necessary to maintain the Reserve and Contingency Fund in the amount equal to 10% of the amount required to be deposited in the Interest Fund and the Principal Fund for the next ensuing 12 months. If at any time the amount on deposit in the Reserve and Contingency Fund exceeds 10% of the amount required to be deposited in the Interest Fund and the Principal Fund for the next ensuing 12 months and if M-S-R PPA is not then in default under the Indenture, M-S-R PPA may withdraw the amount of such excess from such fund for deposit in the Surplus Fund. Except for such withdrawals, all money in the Reserve and Contingency Fund may be used and withdrawn by M-S-R PPA from time to time and applied as may be necessary in the following order of priority: (1) to make payments under any Bond Enhancement Agreement (as hereinafter defined) for which deposits to the Interest Fund have not been made; (2) to make any payment necessary or required upon early termination of any Bond Enhancement Agreement; (3) to replenish the Interest Fund, the Principal Fund and/or the Bond Reserve Fund, in such order of priority, in the event of a deficiency in any such fund; (4) to pay the costs of major renewals and replacements; (5) to pay extraordinary Maintenance and Operation Costs of M-S-R PPA, including the prevention or correction of any unusual loss or damage; and (6) to pay any other costs necessary to maintain the Improvements in good condition, repair and working order, provided that payments made pursuant to clauses (1) and (3) above shall be made on a pro rata basis. See also APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – The Indenture – Receipt and Deposit of Revenues; Revenue Fund."

Rate Covenant

M-S-R PPA covenants in the Indenture that it will at all times establish and collect rates and charges sufficient to produce Net Revenues in each fiscal year which will equal or exceed 110% of the amounts required to be deposited in such fiscal year into (i) the Interest and Principal Fund and the Bond Anticipation Note Interest Fund established under the Senior Lien Bond Resolution and (ii) the Interest Fund and the Principal Fund established under the Indenture.

Outstanding Senior Lien Bonds

Upon the delivery of the Series 2011O Bonds, there will be outstanding $18,020,000 aggregate principal amount of Senior Lien Bonds. The outstanding Senior Lien Bonds, together with any other Senior Lien Bonds that may hereafter be issued by M-S-R PPA under the Senior Lien Bond Resolution, are payable from Net Revenues prior to the payment of the Subordinate Lien Bonds, including the Series 2011O Bonds. See "– Additional Senior Lien Bonds" below for a discussion of the limitations on additional San Juan Project Revenue Bonds that may be issued pursuant to the Indenture. See also "M-S-R PUBLIC POWER AGENCY – Outstanding Indebtedness."

Additional Senior Lien Bonds

M-S-R PPA has covenanted pursuant to the Indenture that it will not voluntarily create or cause or permit to be created any pledge, lien, charge or encumbrance having priority over, or having parity with, the lien of the Subordinate Lien Bonds upon any of the Pledged Revenues or issue any bonds, notes or other obligations secured by a pledge of or charge or lien upon Pledged Revenues except the Subordinate Lien Bonds; provided, that M-S-R PPA may issue Senior Lien Bonds for the purpose of (i) redeeming and retiring obligations of M-S-R PPA issued under the Senior Lien Bond Resolution, and (ii) acquiring and constructing additions or betterments to the capital improvements to the Project (including transmission facilities or ownership or capacity rights thereto to transmit energy from San Juan Unit No. 4 to the Participants) ("Improvements" as defined herein) in an aggregate principal amount not to exceed $100,000,000. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – The Indenture – Covenants of the Agency."

Outstanding Subordinate Lien Bonds

In addition to the Series 2011O Bonds, there will be outstanding as of the date of delivery of the Series 2011O Bonds, $310,180,000 aggregate principal amount of Subordinate Lien Bonds. The outstanding Subordinate Lien Bonds, together with any additional Subordinate Lien Bonds that may hereafter be issued by M-S-R PPA under the Indenture, are payable from Pledged Revenues on a parity with the Series 2011O Bonds.

M-S-R PPA's San Juan Project Subordinate Lien Revenue Bonds, Series 2008M are currently outstanding in the aggregate principal amount of $62,500,000 with a final maturity date of July 1, 2022 and M-S-R PPA's San Juan Project Subordinate Lien Revenue Bonds, Series 2008N are currently outstanding in the aggregate principal amount of $17,000,000 with a final maturity date of July 1, 2020 (collectively, the "Variable Rate Series 2008 Bonds"). The Variable Rate Series 2008 Bonds are multi-modal variable rate demand bonds with credit and liquidity support provided by letters of credit from Dexia Crédit Local, acting through its New York Branch ("Dexia") that have scheduled expiration dates of July 24, 2011. The obligation of the Agency to repay any amounts drawn under the letters of credit is payable from Pledged Revenues on a parity with the outstanding Subordinate Lien Bonds (in the case of a draw for liquidity upon a tender of such bonds, to the extent such repayment is not thereafter provided from remarketing proceeds). Unreimbursed amounts drawn under the letters of credit bear interest at a maximum rate that may be substantially in excess of the rate on the related Variable Rate Series 2008 Bonds. Moreover, in certain circumstances, the failure to reimburse amounts drawn under the letters of credit may result in the acceleration of the scheduled principal payments for the related series of Variable Rate Series 2008 Bonds.

[In March, 2011, the Agency selected Wells Fargo Bank to provide direct purchase arrangements for each series of Variable Rate Series 2008 Bonds, which are currently scheduled to close on or about [June 15], 2011. These direct purchase arrangements are expected to specify a scheduled mandatory tender date of [July 1, 2014] for each series of Variable Rate Series 2008 Bonds. On or before that mandatory tender date, the Agency will likely be required to seek an extension of the direct purchase arrangements, or arrange for alternate credit facilities or refinance the Variable Rate Series 2008 Bonds as fixed rate bonds. Each of these alternatives is subject to future market conditions and no assurance can be given regarding which, if any, of these alternatives will be implemented by the Agency.] **[To be updated and confirmed as the transaction moves forward.]**

In addition, M-S-R PPA has executed certain swap agreements, the payments to be made by M-S-R PPA under which are payable on a parity with the Subordinate Lien Bonds. See "Interest Rate Swap Agreements" below and "M-S-R PUBLIC POWER AGENCY – Outstanding Indebtedness."

Additional Subordinate Lien Bonds

In addition to the outstanding Subordinate Lien Bonds, M-S-R PPA may issue additional Series of Subordinate Lien Bonds payable from Pledged Revenues on a parity with the outstanding Subordinate Lien Bonds (including the Series 2011O Bonds), subject to the terms and conditions of the Indenture. Among other conditions, the Indenture requires that M-S-R PPA shall have placed on file with the Trustee a certificate of M-S-R PPA certifying: (i) no event of default under the Indenture has occurred and is continuing as of the date of such certificate; (ii) the Subordinate Lien Bonds are being sold at a purchase price which produces an interest rate which is not in excess of the maximum rate allowable under the Indenture; (iii) the sum of the total principal amount of all variable rate Subordinate Lien Bonds of such Series plus the total amount of interest accrued or to be accrued thereon during the maximum interest period for all such variable rate Subordinate Lien Bonds plus thirty (30) days, plus the maximum redemption premium to be applicable to such variable rate Subordinate Lien Bonds during such interest rate period, does not exceed the amounts available to be drawn for such purposes under all Liquidity Facilities for such variable rate Subordinate Lien Bonds (or such lesser amount of interest on such Subordinate Lien Bonds as may be approved by each rating agency rating such Subordinate Lien Bonds and any municipal bond insurer for such Subordinate Lien Bonds); and (iv) M-S-R PPA is in receipt of an opinion of Bond Counsel covering the Series of Subordinate Lien Bonds of the installment then being issued.

In addition to Subordinate Lien Bonds, M-S-R PPA may enter into any loan agreement, revolving credit agreement, insurance contract, commitment to purchase, purchase or sale agreement, or commitments or other contracts or agreements, including, without limitation, interest rate agreements, including interest rate swap agreements, in connection with the issuance, payment, sale, resale or exchange of any Subordinate Lien Bonds to enhance the security for or provide for the payment, redemption or remarketing of such Subordinate Lien Bonds and interest on such Subordinate Lien Bonds or to reduce the interest payable on such Subordinate Lien Bonds ("Bond Enhancement Agreements"), the payments under which would be on a parity with the Subordinate Lien Bonds. The Agency may only enter into Bond Enhancement Agreements with entities that are rated in one of the two highest short-term or long-term debt rating categories by a rating agency. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – Deposit and Receipt of Revenues; Revenue Fund."

Interest Rate Swap Agreements

M-S-R PPA has entered into interest rate swap agreements (the "Swap Agreements") with JPMorgan Chase Bank, N.A. (the "Swap Provider") whereby M-S-R PPA effectively fixed the interest rate on its $79,500,000 initial principal amount of San Juan Project Subordinate Lien Revenue Bonds, Series 1998F and Series 1998G (collectively, the "Series 1998 Bonds"). The Series 1998 Bonds were refunded in 2008 from a portion of the proceeds of M-S-R PPA's Variable Rate Series 2008 Bonds. The Swap Agreements remained in effect following the refunding of the Series 1998 Bonds and are utilized to hedge the interest rate exposure on the Variable Rate Series 2008 Bonds. The Swap Agreements are expected to continue to hedge the interest rate exposure on the Variable Rate Series 2008 Bonds following the Agency's anticipated direct purchase transaction with respect to such bonds as described above. See "– Outstanding Subordinate Lien Bonds" above.

The obligation of M-S-R PPA to make payments to the Swap Provider under the Swap Agreements is on a parity with M-S-R PPA's obligation to make payments on the Subordinate Lien Bonds. Under certain circumstances, the Swap Agreements may be terminated and M-S-R PPA may be required to make a substantial termination payment to the Swap Provider. Pursuant to the Swap Agreements, any such termination payment owned by M-S-R PPA would be payable on a parity with the Subordinate Lien Bonds. In the event of early termination of any of the Swap Agreements, there can be no assurance that (i) M-S-R PPA will receive any termination payment payable to M-S-R PPA by the Swap Provider, (ii) M-S-R PPA will have sufficient amounts to pay any termination payment payable by it to the Swap Provider, or (iii) M-S-R PPA will be able to obtain a replacement swap agreement with comparable terms. See Note 7 in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF M-S-R PPA FOR THE FISCAL YEARS ENDED DECEMBER 31, 2009 AND 2008" for additional information regarding the terms of the Swap Agreement.

There is no guarantee that the floating rate payable to M-S-R PPA pursuant to each of the Swap Agreements will match the variable interest rate on the Variable Rate Series 2008 Bonds to which the Swap Agreement relates at all times or at any time. Under certain circumstances, the Swap Provider may be obligated to make a payment to M-S-R PPA under the Swap Agreement that is less than the interest due on the Variable Rate Series 2008 Bonds. In such event, M-S-R PPA would be obligated to pay such insufficiency from Pledged Revenues.

M-S-R PPA may, from time to time, enter into additional interest rate swap agreements with security and payment provisions as determined by M-S-R PPA and subject to any conditions contained in the Indenture.

Limitations on Remedies

The rights of the owners of the Series 2011O Bonds are subject to the limitations on legal remedies against cities and other public agencies in the State. Additionally, enforceability of the rights and remedies of the owners of the Series 2011O Bonds, and the obligations incurred by M-S-R PPA and the Participants, may become subject to the following: the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of

America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2011O Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

THE PROJECT

Background

In 1982, M-S-R PPA negotiated with and acquired from Tucson Electric Power Company ("TEP") an option to purchase from Public Service Company of New Mexico ("PNM") a 28.8% ownership interest in San Juan Unit No. 4 (hereinafter, the "San Juan Ownership Interest"), a coal fired steam electric generating unit with a current net generating capacity of 507 MW. In 1983, M-S-R PPA exercised its option and acquired from PNM the San Juan Ownership Interest. At the same time, M-S-R PPA also arranged for the sale to PNM of 73.53% (approximately 105 MW) of M-S-R PPA's capacity and associated energy in the San Juan Ownership Interest through April 30, 1995. In connection with the acquisition of the option from TEP, M-S-R PPA also entered into an interconnection arrangement (the "Interconnection Agreement") with TEP by which TEP would supply to M-S-R PPA annual amounts of non-firm energy and an option to purchase up to 138 megawatts ("MW") of combustion turbine peaking capacity from TEP (the "TEP Entitlement"). M-S-R PPA's options to the non-firm energy and combustion turbine peaking capacity from TEP expired in May 1995. In addition, the Interconnection Agreement provides for reserve sharing, banking and capacity exchanges between M-S-R PPA and TEP, which commenced in 1995. See "– The Interconnection Agreement" below. The Participants have been using their respective Participation Percentage of such capacity and associated energy either in their own systems or for lay-offs or other transactions with third parties. See "Power Supply Resources – Joint Powers Agency Resources – *M-S-R PPA Purchased Power–San Juan*" for each of the Participants in APPENDIX A – "THE PARTICIPANTS" for information regarding such Participant's use of its Participation Percentage of San Juan capacity and energy.

The total cost of the San Juan Ownership Interest (including the option price) as well as the TEP Entitlement was $349,000,000, which was financed (or refinanced) with the proceeds of San Juan Project Revenue Bonds.

In October 1999, the owners of the San Juan Generating Station entered into the San Juan Project Participation Agreement to govern the management and operation of the San Juan Generating Station and to acknowledge the existence of multiple new owners, to update the indirect voting process and to equitably share the liabilities associated with the project. The San Juan Project Participation Agreement was subsequently amended in 2005 to harmonize with certain provisions of a coal sales agreement entered into by PNM and TEP on behalf of the San Juan Generating Station. For additional information regarding the San Juan Project Participation Agreement, see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – The Participation Agreement."

The San Juan Unit No. 4

San Juan Unit No. 4 is one of four coal-fired steam electric generating units which together make up the San Juan Generating Station. San Juan Unit No. 4 is a coal-fired steam electric generating unit constructed and operated by PNM with a 507 MW net capacity rating. San Juan Unit No. 4 was declared commercially operable in April 1982, and has operated at a net capacity factor of approximately 84.7% through December 2010.

The San Juan Generating Station site is located in San Juan County, New Mexico, approximately 15 miles northwest of the City of Farmington. Units Nos. 1 and 2 are owned equally by PNM and TEP, while Unit No. 3 is owned 50% by PNM, 41.8% by the Southern California Public Power Authority ("SCPPA"), and 8.2% by Tri-State Generation and Transmission Association, Inc. San Juan Unit No. 4 is presently owned as follows:

	Undivided Ownership Interest
Public Service Company of New Mexico	38.457%
M-S-R Public Power Agency	28.800
City of Anaheim, California	10.040
City of Farmington, New Mexico	8.475
City and County of Los Alamos, New Mexico	7.200
Utah Associated Municipal Power Systems	7.028
Total	100.000%

The San Juan Generating Station

Operating Statistics. The operating results of the San Juan Generating Station during calendar years 2006 through 2010 are shown in the following table.

Project Operating Statistics
San Juan Generating Station
2006-2010

	2006	2007(3)	2008	2009	2010
Plant Equivalent Availability Factor	89.6%	80.4%	76.5%	84.9%	73.5%
Plant Net Capacity Factor	86.4%	77.7%	73.6%	80.2%	69.1%
Unit No. 4 Equivalent Availability Factor(1)	93.3%	66.5%	84.0%	89.8%	79.1%
Unit No. 4 Net Capacity Factor(2)	89.9%	63.7%	80.8%	85.7%	75.0%

(1) According to Industry Average Data (All Units Reporting) compiled by Generating Unit Availability Data Systems ("GADS"), the industry average Equivalent Availability Factor for 2005-2009 (the most recent study period) for units of 400-599 MW operating primarily on coal was 82.18%.

(2) According to Industry Average Data (All Units Reporting) compiled by GADS, the industry average Net Capacity Factor for 2005-2009 (the most recent study period) for units of 400-599 MW operating primarily on coal was 70.66%.

(3) Beginning in 2007 and extending through 2009, each of the San Juan Units experienced extended outages to complete the Environmental Upgrade Project. Due to extensive modification, additional outage time was necessary to correct and complete the necessary work and unforeseen repairs on San Juan Unit No. 4 in 2007. During the outage periods, the M-S-R PPA Members procured power from alternate sources. The Environmental Upgrade Project was completed on or about November 29, 2007 with respect to San Juan Unit No. 4, which was subsequently returned to service.

Project Costs. Set forth below is a summary of the operating and transmission costs for the San Juan Unit No. 4 for the past two years, as well as estimates of such costs for the four-year period 2011 through 2014. The estimates of future operating and fuel costs of the San Juan Unit No. 4 have been developed by M-S-R PPA based on unit cost data provided by PNM. The estimates of future operating and fuel costs are based upon certain assumptions, some of which are described in the paragraphs following the table. While the Agency believes the assumptions are reasonable, no assurance can be given that the assumed conditions will in fact occur.

San Juan Unit No. 4
Historical and Projected Costs
2009-2014

	Historical[1][2]		Projected			
	2009	2010	2011[3]	2012	2013	2014
Fuel	$31,439,908	$29,224,961	$31,816,618	$32,101,327	$34,893,498	$35,751,710
Operation and Maintenance[2]	12,230,738	16,206,537	11,852,796	20,728,815	13,245,730	16,324,931
Generation Debt Service	29,869,518	32,843,413	35,362,800	33,120,825	33,128,175	32,813,900
Transmission	2,219,621	1,419,864	1,419,864	1,419,864	1,419,864	1,419,864
Transmission Debt Service	6,991,340	7,142,767	6,988,338	6,993,500	6,994,750	6,992,750
Less Interest Earnings on Project Funds						
Total						
Average Delivered Cost (mills/kWh)[3]						
Average Operating Cost (mills/kWh)						
Unit 4 Output (GWh)	1,096.7	979.8	1,270.3	1,135.4	1,270.3	1,186.7

(1) Unaudited.
(2) 2009 and 2010 operation and maintenance costs incorporate costs associated with environmental modifications.
(3) Average delivered cost based on estimated M-S-R PPA share of plant output.

Over the last several years, PNM has taken a variety of steps to improve the cost performance of the San Juan Generating Station. Overall staffing of the plant has been reduced from a level of 517 in 1997 to a current level of 353, without a degradation of the San Juan Generating Station or its performance.

Fuel Costs. The coal requirements for the San Juan Generating Station are supplied by San Juan Coal Company ("SJCC"), a wholly-owned subsidiary of BHP Billiton Limited ("BHP"). The current primary supply of coal is from an underground mine located adjacent to the San Juan Generating Station. The coal sales agreement term extends to 2017. All coal reserves acquired by the SJCC are dedicated for use by the San Juan Generating Station.

In 2000 and 2001, the owners negotiated an Underground Coal Sales Agreement under which the existing surface mining operations were terminated and by which an underground coal mine would be developed. In 2002, the conversion to a new series of coal supply agreements was completed with the cancellation of the prior coal supply agreements. Pursuant to the 2011 SJCC Budget the average price of coal delivered in 2011 will be $2.405 per million British thermal units ("MMBtu").

Water Rights and Water Supply. Water rights supporting the San Juan Generating Station are provided from two sources, an agreement with the Jicarilla-Apache Nation which expires in 2028, and a life-of-project agreement with BHP. PNM has also been working with the United States Bureau of Reclamation, neighboring Indian tribes, and other area stakeholders to develop alternatives for temporary supplies of water in order to minimize the effect, if any, of San Juan Basin water shortages on operations of the Four Corners area power plants.

PNM has reached an agreement for a voluntary shortage sharing agreement with tribes and other water users in the San Juan Basin for a term ending December 31, 2012. Further, PNM and BHP have reached agreement on a long-term supplemental contract relating to water for San Juan Generating Station with the Jicarilla Apache Nation that ends in 2016.

San Juan Generating Station Litigation

Environmental Litigation. On May 16, 2002, the Sierra Club and the Grand Canyon Trust filed suit against PNM in federal court alleging violations of the federal Clean Air Act (the "Clean Air Act") and of the conditions of the San Juan Generating Station's air permits. The lawsuit sought penalties as well as injunctive and declaratory relief. The New Mexico Environmental Department ("NMED") subsequently intervened in the lawsuit as a party plaintiff. On March 9, 2005, PNM reached a settlement with the plaintiffs which required certain modifications to the pollution control equipment at the San Juan Generating Station. The capital cost of such modifications were approximately $320 million. A consent decree approving the settlement was entered by the court on May 10, 2005. PNM completed construction of the modifications to the San Juan Generating Station in November 2007.

In December 2009, M-S-R PPA received a notice of an intent to sue ("RCRA Notice") under the Resources Conservation and Recovery Act ("RCRA") from the Sierra Club. The RCRA Notice was also sent to all San Juan Generating Station owners, to SJCC, which operates the San Juan Mine that supplies coal to the generating station, and to BHP. Additionally, M-S-R PPA has been informed that SJCC and BHP received a separate Notice of Intent to Sue ("SMCRA Notice") under the Surface Mine Control and Reclamation Act ("SMCRA") from the Sierra Club. On April 8, 2010, the Sierra Club filed suit in the U.S. District Court for the District of New Mexico against PNM, PNM Resources ("PNMR"), the parent company of PNM, SJCC and BHP. In the suit, the Sierra Club alleges that activities at the San Juan Generating Station and the San Juan Mine are causing imminent and substantial harm to the environment, including ground and surface waters in the region, and the placement of coal combustion byproducts ("CCBs") at the San Juan Mine constitute "Open Dumping" in violation of RCRA. The claims under RCRA are asserted with respect to PNM, PNMR, SJCC and BHP. The suit also includes claims under SMCRA, which are directed only against SJCC and BHP. The complaint requests judgment for the following relief: an injunction requiring the parties to undertake certain mitigation measures with respect to the placement of CCBs at the mine or to cease placement of CCBs at the mine; the imposition of civil penalties; and an award of plaintiff's attorney's fees and costs. On July 10, 2010, the Sierra Club filed an amended complaint that corrected some technical deficiencies in its original complaint. The factual allegations remained the same. The parties have agreed to a stay of the action, which the Court entered on August 27, 2010, to allow the parties to try to address Sierra Club's concerns. If the parties are unable to settle the matter, PNM has informed M-S-R PPA that it has and will continue to aggressively defend its position in this suit. However, M-S-R PPA cannot predict the outcome of these matters at this time.

Clean Air Act - Regional Haze Proceedings. The United States Environmental Protection Agency (the "EPA") has established rules addressing regional haze (*i.e.,* visibility impairment caused by cumulative air pollutant emissions from numerous sources over a wide geographic area). The rules call for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. The rules require Best Available Retrofit Technology ("BART") to be considered as a control measure on specific categories of certain major stationary sources of haze-producing pollutants in existence prior to the enactment in 1977 of the Clean Air Act amendments addressing regional haze. If a source is found to be BART-eligible, a determination of the source's contribution to visibility impairment and the resulting emission reductions from the application of BART is conducted.

In November 2006, the NMED requested a BART analysis for nitrogen oxide ("NOx") and particulates for each of the four units at the San Juan Generating Station. PNM submitted its analysis to the NMED in June 2007, recommending against installing additional pollution control equipment on any of the San Juan Generating Station units beyond those planned at that time, the installation of which was completed in March 2009 as described above. PNM subsequently provided additional data in response to requests from the NMED. In June 2010, the NMED filed a proposed regional haze State Implementation Plan ("SIP") with the New Mexico Environmental Improvement Board (the "EIB"), which included a finding by the NMED that BART for NOx at the San Juan Generating Station is a technology known as "selective catalytic reduction" ("SCR") plus "sorbent injection." PNM disagreed with this BART determination. NMED subsequently withdrew its petition for adoption of the regional haze SIP on December 17, 2010. The EPA was subject to a consent decree that required it to issue a proposed Federal Implementation Plan ("FIP") for certain states, including New Mexico, for regional haze mitigation if no proposed SIP had been submitted by December 22, 2010. The EPA Region 6 issued a proposed Interstate Transport FIP on December 20, 2010. If the proposed FIP is finalized in the form issued, it would require the installation of SCR technology at on all four units of the San Juan Generating Station within a three year timeframe. The consent decree (as subsequently modified) requires a final approved SIP or FIP for New Mexico by June 21, 2011. On February 28, 2011, the NMED submitted a new proposed SIP to the EIB which included a state BART determination for San Juan Generating Station. Under the SIP as submitted, the state has concluded that selective non-catalytic reduction (SNCR) is BART for San Juan, a different and less expensive technology than proposed by the EPA in the FIP.

M-S-R PPA is unable to predict the final form of regulations that may be issued or what, if any, additional pollution control equipment will ultimately be required for the San Juan Generating Station, but the installation of additional pollution control equipment at the San Juan Generating Station, if required, would likely require a significant capital investment by the San Juan Generating Station owners.

Greenhouse Gas Emissions Regulations. In connection with the cap-and-trade program adopted by the California Air Resources Control Board ("CARB") under California Assembly Bill 32 to reduce greenhouse gas emissions, M-S-R PPA may be required to account for carbon emissions of the San Juan Unit No. 4 and provide off-setting allowances thereto. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – State Legislation – *Greenhouse Gas Emissions*" herein.

The Interconnection Agreement

The Interconnection Agreement provides that beginning in 1995 and during the life of San Juan Unit No. 4 (unless terminated by three years' notice by either party) M-S-R PPA shall assign to TEP, for reserve purposes only, half its capacity rights in San Juan Unit No. 4 in exchange for similar rights to TEP's interest in San Juan Units Nos. 1 and 2. This arrangement reduces the reserve requirements of both parties and spreads the risk of any of the units being unavailable. No ownership rights are affected by the terms of this reserve sharing arrangement. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS – The TEP Interconnection Agreement."

In the Interconnection Agreement, M-S-R PPA and TEP further agree to exchange capacity and energy for a 30-year period beginning in 1995. The agreement provides for the exchange of M-S-R PPA capacity and energy at the San Juan Generating Station for TEP capacity and energy at the Palo Verde Nuclear Generating Station Switchyard, the Moenkopi Substation or the Westwing Switchyard, located in central Arizona.

The Interconnection Agreement also provides for the sale of emergency energy and transmission services and for the banking of energy requested by one party and delivered at the option of the other.

Southwest Transmission Project

Since the purchase of the San Juan Ownership Interest and the execution of the Interconnection Agreement in 1983, M-S-R PPA has endeavored to establish firm transmission path arrangements providing for the delivery of power and energy from central Arizona to the Participant's systems in northern California (the "Southwest Transmission Project"). In May 1991, M-S-R PPA issued its San Juan Project Revenue Bond, Series E (the "Series E Bonds") to finance a portion of its costs of participation in the Southwest Transmission Project. The Series I Bonds were issued in 2001 for purpose of refunding a portion of the then outstanding Series E Bonds.

The Southwest Transmission Project is comprised of M-S-R PPA's participation in the acquisition and construction of a 500-kilovolt ("kV") alternating current ("AC") transmission project between the central Arizona area and the Los Angeles basin and certain other transmission facilities and arrangements from the terminus of such project to the Participants' systems in northern California.

The Southwest Transmission Project consists generally of the following components as more fully described herein:

- Acquisition of an interest (222 MW transmission capability) in a 252-mile transmission line from the Westwing Substation in southern Arizona to the McCullough Substation near Las Vegas, Nevada (the "Mead-Phoenix Segment"). M-S-R PPA's 222 MW transmission capability interest in the Mead-Phoenix Segment reflects an upgrade of the line which was completed in 2009, at a cost of M-S-R PPA of $2.1 million.

- Acquisition of a one-mile interconnection between McCullough and Marketplace Substations near Las Vegas, Nevada (the "McCullough Tie-Lines").

- Acquisition of an interest (226 MW transmission capability) in a 202-mile transmission line from the Marketplace Substation near Las Vegas, Nevada to the Adelanto Substation near Los Angeles, California (the "Mead-Adelanto Segment").

- Arrangements with the Department of Water and Power of the City of Los Angeles ("LADWP") for transmission service (226 MW transmission capability) from the Adelanto Substation near Los Angeles, California, to the midpoint of the Victorville-Lugo transmission line.

- Arrangements with Southern California Edison Company ("Edison") for transmission service (150 MW transmission capability) from the midpoint of the Victorville-Lugo transmission line to the Midway Substation in central California.

Mead-Phoenix and Mead-Adelanto Segments. Full commercial operation of both the Mead-Phoenix and the Mead-Adelanto Segments occurred on April 15, 1996. Total estimated costs of the Mead-Phoenix and Mead-Adelanto Segments, together with certain planning costs and system reinforcements necessary for certain arrangements with other utilities (including a 10% contingency) were approximately $591.9 million, with M-S-R PPA's share of such costs estimated at $86.9 million. Actual project costs were approximately 23% under budget. Surplus construction funds, together with excess funds in the bond reserve fund, were applied to the defeasance of $28,470,000 principal amount of outstanding Series E Bonds.

The Operations Managers for the Mead-Phoenix and Mead-Adelanto Segments have received a number of interconnection requests from a variety of independent power producers that are planning generation projects in Western Arizona and/or Southern Nevada. Representatives of M-S-R PPA and the other joint owners in these transmission segments are working diligently to develop the proper contractual arrangements to accommodate the interconnection requests. To date, M-S-R PPA has received no requests for transmission service over these transmission segments.

McCullough Tie-Lines. The McCullough Tie-Lines were included in the development of the Mead-Phoenix and Mead-Adelanto Segments. The McCullough Tie-Lines provide the following benefits: (1) additional reliability to the Southwest Transmission Project; and (2) the opportunity for all owners of the Mead-Phoenix and Mead-Adelanto Segments to enter into energy transactions with entities at McCullough Substation.

LADWP Transmission Service. M-S-R PPA has executed a transmission agreement with LADWP under which LADWP provides M-S-R PPA with 150 MW of transmission service from the Adelanto substation to the midpoint of the Victorville-Lugo transmission line. The agreement was executed in 1992 and may be terminated upon 4 years' notice by either party or upon 30 days' notice by M-S-R PPA in the event of an increase in the transmission rates imposed by LADWP under the agreement. The transmission agreement will terminate in the event the Mead-Adelanto Segment is retired or the Victorville-Lugo transmission line is permanently removed from service.

Edison Transmission Service. M-S-R PPA has executed a transmission agreement with Edison under which Edison provides M-S-R PPA with 150 MW of transmission service from the midpoint of the Victorville-Lugo transmission line to the Midway Substation in central California. The agreement was executed in 1994 and has been filed with and approved by the Federal Energy Regulatory Commission ("FERC"). The agreement may be terminated by M-S-R PPA upon 5 years' notice by M-S-R PPA. The agreement will terminate in the event the Mead-Adelanto Segment is permanently removed from service.

On August 1, 2008, Edison filed a rate case to change the rate design and increase the charges under the firm transmission agreement with Edison. This matter was set by FERC for settlement judge procedures. As a result of the FERC settlement judge proceedings, Edison filed an offer of settlement on July 1, 2009, which was approved by FERC on September 11, 2009. Under the terms of the settlement increases in the transmission service rates under the firm transmission agreement have been established through December 31, 2013. Beginning on January 1, 2014, the rates will be determined by Edison's system costs. Accordingly, it is expected that the annual costs will increase again on January 1, 2014, based on Edison's then existing system costs. On July 31, 2009, Edison filed another rate case (its fifth under the ISO regime), which does not directly impact the M-S-R PPA firm transmission agreement settled rates at this time, but will be used after January 1, 2014 to establish the rates for the M-S-R PPA firm transmission agreement. The parties have reached a settlement-in-principle as to Edison's fifth rate case, which was approved by FERC on February 11, 2010. In addition, there is an ongoing proceeding concerning Edison's rates for construction work-in-progress for certain transmission projects that is in settlement discussions, and if necessary, will go to hearing. Such rates would impact Edison's system costs and therefore be reflected in the rate under the firm transmission agreement with M-S-R PPA.

Other Transmission Arrangements Involved in Southwest Transmission Project. Transmission service from the Midway Substation (the terminus of the Southwest Transmission Project as described above) to the Participants is provided through transmission arrangements between the Transmission Agency of Northern California ("TANC") and PG&E. See APPENDIX A – "THE PARTICIPANTS – MODESTO IRRIGATION DISTRICT – Power Supply Resources – Joint Powers Agency Resources – *Tesla-Midway Transmission Service*."

Transmission Constraints. The reliability of transmission service for delivery of San Juan Project capacity and energy to the Participants utilizing the Southwest Transmission Project and arrangements with TANC and PG&E is dependent upon the availability of unconstrained energy flows between southern and northern California. The existing transmission path between these areas of the State, referred to as "Path 15," creates various ranges of transmission congestion between the northern and southern parts of California on both sides of Path 15. The amount of congestion varies by time of year and as a function of different operating conditions. A number of projects have been identified by various entities to mitigate congestion on Path 15. The California Public Utilities Commission (the "CPUC") ordered PG&E to file for approval of a Certificate of Public Convenience and Necessity for the construction of certain improvements to relieve transmission congestion between northern and southern California, which application was filed by PG&E on April 13, 2001. On December 22, 2002, PG&E, the Western Area Power Administration ("Western") and TransElect, a for-profit regional transmission organization, executed a Path 15 Upgrade Construction and Coordination Agreement. In 2005, Western completed the upgrade of Path 15, the transmission path which connects northern and southern California. The upgrade provides an additional 1,500 MW of transmission capability to Path 15. The upgrades have dramatically improved the availability of Path 15 for M-S-R PPA's use. See also APPENDIX A – "THE PARTICIPANTS – MODESTO IRRIGATION DISTRICT – Power Supply Resources – Joint Powers Agency Resources – *TANC California-Oregon Transmission Project.*"

M-S-R PUBLIC POWER AGENCY

General

The Act and Joint Powers Agreement authorize M-S-R PPA to issue revenue bonds and notes to finance, acquire, construct and maintain any project, including generation plants and transmission systems, for the purpose of providing electric energy for public or private uses. The Joint Powers Agreement shall continue in full force and effect until the Agency is dissolved by the unanimous consent of all Members and shall not terminate nor shall any Member withdraw from the Joint Powers Agreement or terminate its obligations under the Joint Powers Agreement unless and until all San Juan Project bonds and any and all obligations related thereto (such as liquidity agreements, interest rate swaps and investment agreements) have been fully paid or defeased, satisfied and discharged in accordance with their respective terms. Specific authority for M-S-R PPA to enter into each project is provided by authorizing ordinances adopted by the Members.

The Members are obligated to pay the administrative costs associated with M-S-R PPA's operation on the following basis: Modesto 50%, Santa Clara 35%, Redding 15%. Potential power supply resources are evaluated by M-S-R PPA staff and consultants and then offered for the individual consideration of each Member. The Members are entitled to participate in each project in the percentages set forth above. However, if full participation by any Member or Members is not desired, the actual participation percentages are determined by mutual agreement and are provided for in individual project agreements among the Members. M-S-R PPA will hold title to each project in trust for the use of the participating Members. Any non-participating Member shall be indemnified and held harmless from liability from such project by the participating Members. Each of the Members is a Participant in the San Juan Project.

Purposes and Objectives

M-S-R PPA was formed under the terms of the Act and the Joint Powers Agreement to acquire, construct, maintain and operate facilities for the generation and transmission of electrical energy for the benefit of any one or more of the Members.

The objective of M-S-R PPA is to minimize power costs of the Members by supplying a portion of their power requirements through the development or acquisition of generating facilities and through the arrangement of contractual power entitlements for its Members. Long-term benefits to the Members are anticipated as resources become available or operational by providing a systematic replacement of wholesale power purchases currently being made by the Members with power supply resources developed or acquired by M-S-R PPA.

Organization and Management

M-S-R PPA is administered by a Commission consisting of three Commissioners. The governing bodies of the Members appoint one Commissioner each. Each Commissioner serves at the pleasure of such governing body. Each Member's governing body may appoint one or more alternate Commissioners to serve during the absence of its Commissioner. The Commission holds regular meetings and annually elects a President and Vice President. It appoints a Secretary and may appoint one or more Assistant Secretaries. The Joint Powers Agreement designates the Treasurer and Controller of Modesto as the Treasurer and Controller of M-S-R PPA.

Operations of M-S-R PPA are administered by the General Manager, who is appointed by the Commission. Until late 1996, the General Manager historically served on the staff of a Member. Following a review of its organizational structure in light of changes in the electric utility industry, in April 1997, the Commission first appointed a General Manager not affiliated with any of the Members and in August 1997, the Commission appointed a Secretary and General Counsel not affiliated with any of its Members. The General Manager coordinates staff and consulting activities and performs other administrative services. He has been authorized by the Commission to execute agreements to sell and deliver San Juan Project energy on behalf of M-S-R PPA.

M-S-R PPA's Treasurer and Controller are responsible for, among other duties, (1) maintaining M-S-R PPA's billings to and revenues from the Members in regard to M-S-R PPA activities, (2) administering the annual M-S-R PPA budget, (3) making or causing to be made an annual audit of the accounts and records of M-S-R PPA and (4) management of cash investment activities.

The individual Member's electric systems operate independently from M-S-R PPA and each Member has an electric system staff. Thus, M-S-R PPA does not maintain a separate full-time staff, but relies on the respective staffs of the Members and consultants. The Commission has the flexibility to appoint other officers and employees and create a separate staff if, and when, the need arises.

Commissioners

Currently, the position of President of the Commissioners is held by Allen Short, representative of Modesto. The position of Vice President is held by Patrick Kolstad, representative of Santa Clara. The third Commissioner of M-S-R PPA is Paul Hauser, representative of Redding.

Executive Staff and Other Officers

<u>Martin Hopper, General Manager</u>

Mr. Hopper was appointed M-S-R PPA General Manager effective June 1, 2008. Mr. Hopper also has served as M-S-R EA General Manager since the formation of M-S-R EA in July 2008 (see "– Other M-S-R Projects" below). Previously, Mr. Hopper served as M-S-R Director between January 2007 and June 2008, and served on the management and engineering staff of the City of Santa Clara between 1982 and 2008. Mr. Hopper holds a Bachelor of Applied Science (Civil Engineering) from the University of British Columbia, Canada. He has previously served as Chairman of the M-S-R Staff Committee, the Northern California Power Agency's Facilities Committee and Coordinated Operations Group and has held other leadership positions with the Central California Power Agency, and the Transmission Agency of Northern California.

Lou Hampel, Treasurer

Mr. Hampel, Treasurer and Assistant General Manager, Finance of Modesto Irrigation District since April 16, 2006, received an undergraduate degree in biochemistry from University of California at Riverside, followed by Master's degrees in chemical engineering from Washington University in St. Louis and business administration from University of California at Davis. Mr. Hampel joined the District as Senior Rate Planner in June 1999. In May 2005, he was promoted to Budget and Rates Administrator. Prior to joining the District, he spent 15 years with Pacific Bell.

Controller

The position of Controller of the Power Agency is currently vacant.

Steven C. Gross, Secretary and General Counsel

In August 1997, the Commission appointed Mr. Gross as Secretary and General Counsel of M-S-R PPA. Mr. Gross is a shareholder in the law firm of Porter Simon, P.C. Since joining Porter Simon, P.C., Mr. Gross has concentrated in the areas of public agency, homeowners' associations, and management-side employment and labor law. He serves as general counsel for several local public agencies. Mr. Gross is an economics graduate of Trinity College, Hartford, Connecticut and received his law degree from Santa Clara University in 1988.

Other M-S-R Projects

M-S-R PPA Purchased Power–Big Horn Project. In 2005, M-S-R PPA entered into a series of power purchase agreements with Iberdrola Renewables, Inc. (formerly PPM Energy, Inc.) ("Iberdrola"), certain of which agreements have been assigned to Iberdrola's subsidiary, Big Horn I, LLC, for the purchase of energy, as generated, from the Big Horn wind energy project (the "Big Horn Project") located near the town of Bickleton, in Klickitat County, Washington. The 199.5 MW project consists of 133 1.5 MW GE wind turbines. Modesto receives a 12.5% share of the output from the Big Horn Project, Santa Clara receives 52.5% and Redding receives 35%. The project interconnects with the high voltage transmission grid through an 11-mile transmission line at Bonneville Power Administration's ("BPA") Spring Creek Substation. Through the shaping and firming agreement between M-S-R PPA and PPM, PPM receives Big Horn Project energy, as generated, and delivers such energy to M-S-R PPA at the California-Oregon border pursuant to firm pre-established delivery schedules. Power deliveries commenced on or about October 1, 2006 and continue through September 30, 2026. Through an amendment of the original agreements, M-S-R PPA will have the right to continue to take the same output as available through September 30, 2031, or if the Big Horn Project is repowered M-S-R PPA will have a right of first offer to negotiate a long-term power purchase for such repowered project.

The Big Horn Project is operated within the Bonneville Power Administration ("BPA") balancing authority area. On October 1, 2009, BPA began imposing a wind integration charge of $1.29/kW-month, effective through September 2011, for the purpose of recovering its costs to provide within-hour generation balancing services for wind generators. BPA started conducting a 2012-2013 power rate case on March 3, 2010, which may result in a further increase in the wind integration charge. M-S-R PPA has entered into a series of amendments of the power purchase agreements whereby M-S-R PPA will, subject to certain caps and limitations, pay the first $1.20/kW-month of any wind integration charge imposed by BPA, Iberdrola will pay the next $1.20/kW-month, and M-S-R PPA and Iberdrola will equally split any wind integration charge exceeding $2.40 per/kW-month. Through a collaborative effort among Iberdrola and M-S-R PPA, the Big Horn Project has obtained California Renewable Portfolio Standard Certification as an eligible renewable resource by the California Energy Commission (the "CEC"). The Big Horn Project has been registered with the Western Renewable Energy Generation Information System ("WREGIS") by Iberdrola with BPA acting as the Qualified Reporting Entity. The renewable energy credits are transferred from Iberdrola, the originator, to M-S-R PPA and finally to the Members of M-S-R PPA, for either retirement or wholesale sales by the Members.

More recently, M-S-R PPA negotiated a 25-year agreement with Iberdrola for the purchase of the available output, as generated, from a 50 MW expansion of the Big Horn Project, the Big Horn II Project. The Big Horn II Project commenced operations on November 1, 2010. M-S-R PPA will pay the required wind integration charge and pay the cost of necessary transmission to BPA to deliver the output from the facility to a northern California market trading hub. Modesto receives a 65% share of the output from the Big Horn II Project and Santa Clara receives 35%. Redding does not participate in the Big Horn II Project.

The M-S-R PPA Members use a portion of their respective transfer capability of the California-Oregon Transmission Project to provide for transmission of the output from the Big Horn and Big Horn II Projects from the California-Oregon border.

M-S-R EA. In 2008, the M-S-R PPA Members formed M-S-R EA for the purpose, among other things, of entering into contracts and issuing bonds to assist the Members in financing the acquisition of supplies of electricity, natural gas or environmental commodities for use by each Member in connection with their respective electric utility operations. M-S-R EA has entered into a prepaid gas purchase agreements with Citigroup Energy, Inc. ("CEI") on behalf of the Members and has issued and has outstanding $901,620,000 aggregate principal amount of bonds issued for the purpose of financing on behalf of the Members the costs of prepayment of a long-term supply of natural gas in varying quantities through September 30, 2039. The projects undertaken by M-S-R EA, including the gas prepayment project (and the rights and obligations of M-S-R EA in connection therewith) are separate from, and independent of, the San Juan Project and any other projects undertaken by M-S-R PPA.

Future Power Supply

M-S-R PPA Projects. M-S-R PPA has authority to pursue other power supply options in addition to the San Juan Project. Although one or more of the Participants in the San Juan Project may also participate in other projects, each M-S-R PPA project is independent of any other project and no revenues or funds available from the San Juan Project can be used to pay the costs of any other project. M-S-R PPA has conducted studies for cogeneration, natural gas and coal-fired projects, hydroelectric, wind, solar and other renewable energy projects.

Member Projects. Each of the Members has its own resource development program and also participates in one or more joint exercise of powers agencies. For further information, see APPENDIX A – "THE PARTICIPANTS" herein.

Outstanding Indebtedness

The Series 2011O Bonds are junior and subordinate to M-S-R PPA's $18,020,000 aggregate principal amount of senior lien San Juan Project Revenue Bonds to be outstanding upon the delivery of the Series 2011O Bonds and any additional senior lien San Juan Project Revenue Bonds hereafter issued by M-S-R PPA.

In addition to the Series 2011O Bonds, there will be outstanding under the Indenture $310,180,000 aggregate principal amount of San Juan Project Subordinate Lien Revenue Bonds, upon the delivery of the Series 2011O Bonds.

In addition, M-S-R PPA has executed the Swap Agreements which provide for payments to be made by M-S-R PPA on a parity with the San Juan Project Subordinate Lien Revenue Bonds. Under certain circumstances, the Swap Agreements are subject to early termination, in which event M-S-R PPA could be obligated to make a substantial payment to the Swap Provider. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011O BONDS – Interest Rate Swap Agreements."

Financial Statements

The Agency's audited financial statements for the fiscal years ended December 31, 2009 and December 31, 2008 are appended hereto as APPENDIX B. The financial statements set forth in APPENDIX B should be read in conjunction with the related notes, as well as the Management's Discussion and Analysis included therein. See also "INDEPENDENT ACCOUNTANTS."

THE PARTICIPANTS

The Participants are the three Members, each of which owns and operates an electric utility system. These systems provided electric service to approximately 208,475 customers in their respective service areas in 2010. Based upon estimates furnished by the Participants, the combined population of the Participants' service areas in 2010 was approximately 422,000. The Participants' electric systems had a non-coincident peak demand of approximately 1,349 MW in 2010.

The Participants provide electric service to their customers pursuant to the authority of the Constitution and statutes of the State of California. Under California law, the Participants have authority to acquire, construct, establish, enlarge, improve, maintain, own and operate electric distribution systems.

Each of the Participants have been impacted by the current state of the economy in certain ways. With the downturn in the local economy, each of the Participants has seen a modest decline in electric energy sales, as well as reduced investment returns. In addition, the Participants have experienced varying levels of slowdown in the general business activity in their respective service areas, an increase in unemployment rates and in certain cases, an increase in delinquent accounts. See "Service Area" for each of the Participants in APPENDIX A – "THE PARTICIPANTS" for additional demographic information regarding the Participant's respective service areas.

DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS

Background; California Electric Market Deregulation

In 1996, California partially deregulated its electric energy market. As a consequence of the partial deregulation, the California investor-owned utilities (the "IOUs") sold a large portion of their generation resources and began to purchase significant amounts of electricity. During portions of 2000 and 2001, the market price of electricity in California went through significant fluctuations; the impacts of which are well documented.

A number of State and federal proceedings began as a result of the market dysfunction of 2000 and 2001. These included investigations into alleged market manipulation, which for the most part have either ended or are in the final appellate stages. Other proceedings are ongoing, such as litigation at FERC regarding the need for refunds due to the alleged overcharging for the sale of electricity (which proceedings initially included sales by municipal utilities but were dismissed for lack of jurisdiction). Other cases have been or are expected to be remanded to FERC after appeals to the Ninth Circuit. Although it was ultimately found that FERC lacked jurisdiction to order refunds for alleged overcharging by non-jurisdictional entities, several plaintiffs have pursued remedies in state and federal courts based on a contract and quasi-contract theory. While much of this litigation has been settled, there are still some claims by others at FERC that remain ongoing. M-S-R PPA and the Participants are unable to predict the final outcome of existing investigations and proceedings regarding California's energy crisis of 2000 and 2001 until all of the proceedings are finally concluded. For a discussion of related investigations and litigation involving the Participants and the status thereof, see the discussion under "Litigation" for each of the Participants in APPENDIX A – "THE PARTICIPANTS."

During 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State. While there has been some progress in addressing these issues, uncertainty remains. As a result of the foregoing and other factors, no assurance can be given that measures undertaken during the last several years, together with measures to be taken in the future, will prevent the recurrence of shortages, price volatility or other energy problems that have adversely affected the Participants and other California electric utilities in the past.

State Legislation

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

Greenhouse Gas Emissions. On June 1, 2005, Governor Schwarzenegger signed Executive Order S-3-05, which placed an emphasis on 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% 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, Governor Schwarzenegger also signed Executive Order S-06-06 which directs the State to meet a 20% biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

Governor Schwarzenegger signed Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"), which became effective as law on January 1, 2007. The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas emission levels by 2020. In addition, the GWSA establishes a mandatory reporting program for all IOUs, local, publicly-owned electric utilities and other load-serving entities (electric utilities providing energy to end-use customers ("LSEs")) to inventory and report greenhouse gas emissions to CARB, requires CARB to adopt regulations for significant greenhouse gas emission sources (allowing CARB to design a "cap-and-trade" system) and gives CARB the authority to enforce such regulations beginning in 2012.

On December 11, 2008, CARB adopted a "scoping plan" to reduce greenhouse gas emissions which plan included a mixed approach of market structures, regulation, fees and voluntary measures. The scoping plan included a cap-and-trade system covering 85% of all greenhouse gas emissions in California.

On November 24, 2009, CARB released a preliminary draft regulation for the cap-and-trade program for public review and comment. On December 16, 2010, CARB adopted a regulation approving a cap-and-trade program for California. As adopted, the cap-and-trade program covers sources accounting for 85% of California's greenhouse gas emissions, the largest program of its type in the United States. The regulations will go into effect and be enforceable beginning January 1, 2012.

The adopted cap-and-trade program will be implemented in phases. The first phase of the program (2012 to 2015) will introduce a hard emissions cap on electricity generators and large industrial sources emitting more than 25,000 metric tons of carbon dioxide-equivalent greenhouse gases ("CO_2e") per year. In 2015, the program will be expanded to cover transportation fuels, natural gas, propane and fossil fuels. As each year goes by, the cap will decline. As part of a transition process, the cap-and-trade program will include the distribution of carbon allowances. Each allowance will be equal to one metric ton of CO_2e. Under the program, initially, most of the carbon allowances will be distributed for free. The remaining allowances will be auctioned off. Auctions will occur quarterly. Utilities will be required to auction their allowances and use the auction proceeds for the benefit of their ratepayers. The cap-and-trade program will also allow covered entities to use offset credits for compliance purposes (not exceeding 8% of a regulated entity's allowances). Offsets must be obtained from certified groups that do not fall under the regulated cap. These include urban forest projects, reforestation projects and methane management projects. CARB is likely to consider (and approve) additional offset protocols in 2011.

There are a number of issues remaining to be addressed prior to implementation of the adopted cap-and-trade program, including the development of a methodology for distributing allowances to utilities, identifying and approving additional types of offset protocols, developing market parameters to prevent gaming the system, producing a trading and tracking computer system, and determining whether and how to link California's new program to cap-and-trade programs currently under development in other regions of the United States and Canada.

Further, on January 24, 2011, a tentative statement of decision was issued by a California Superior Court in Association of Irritated Residents, et al. v. California Air Resources Board, Case No. CPF-09-509562, finding that CARB failed to conduct a sufficient environmental impact review under the California Environmental Quality Act ("CEQA") prior to adopting its "scoping plan" under the GWSA in that it did not adequately analyze all potential alternatives and prematurely adopted the plan prior to fully responding to public comment. In the tentative ruling, the court proposes to issue a peremptory writ of mandate enjoining implementation of the scoping plan until CARB complies with its obligations under CEQA. Objections to the tentative ruling have been filed by the parties, as a result of which the court may order a hearing on the objections. A final judgment is required to be filed within 50 days following the tentative ruling or if a hearing is held, within 10 days following the hearing. It is expected that any final judgment will likely be appealed.

M-S-R PPA and the Participants are unable to predict at this time the full impact of the newly adopted cap-and-trade program on their respective electric systems or on the electric utility industry generally or whether any changes to the adopted program will result; however, the Participants could be adversely affected by the implementation of an auction type cap-and-trade program which would require the Participants to purchase carbon allowances to cover the carbon emissions of their respective resource portfolios, the costs of which could be substantial in the absence of an administrative allocation of allowances which would be adequate to cover the emissions.

In addition to the GWSA, Senate Bill 1368 also became effective as law on January 1, 2007 and provides for an emission performance standard, restricting new investments in 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 Participants. The CPUC has the similar responsibility for the IOUs. The revised proposed CEC regulations were approved by the Office of Administrative Law on October 16, 2007. The regulations promulgated by the CEC prohibit any investment in baseload generation that does not meet the emission performance standard of 1,100 pounds of CO_2 per MWh of electricity, with limited exceptions for routine maintenance, requirements of pre-existing contractual commitments, or threat of significant financial harm. The San Juan Generating Station in which M-S-R PPA has its San Juan Ownership Interest is a baseload generator that emits about 2,000 pounds of CO_2 per MWh of electricity produced. See "THE PROJECT – The San Juan Generating Station." However, normal operations of San Juan Unit No. 4 should not trigger this prohibition. In the event any proposed M-S-R PPA investment triggers this prohibition, M-S-R PPA expects that it would apply for any necessary exceptions from the CEC and it believes that it would meet the criteria necessary to allow the CEC to grant such exceptions within its regulatory discretion.

Energy Procurement and Efficiency Reporting. Senate Bill 1037 ("SB 1037"), signed by the Governor on September 29, 2005, requires that each local, publicly-owned electric utility, including the Participants, prior to procuring new energy generation resources, first acquire all available energy efficiency, demand reduction, and renewable resources that are cost effective, reliable and feasible. SB 1037 also requires each local, publicly-owned electric utility to report annually to its customers and to the CEC its investment in energy efficiency and demand reduction programs.

Further, California Assembly Bill 2021 ("AB 2021"), signed by the Governor on September 29, 2006, requires that the local, publicly-owned electric utilities establish, report, and explain the basis of the annual energy efficiency and demand reduction targets by June 1, 2007 and every three years thereafter for a ten-year horizon. Each of the Participants has complied with this reporting requirement under AB 2021. Future reporting requirements under AB 2021 include: (i) the identification of sources of funding for the investment in energy efficiency and demand reduction programs; (ii) the methodologies and input assumptions used to determine cost-effectiveness; and (iii) the results of an independent evaluation to measure and verify energy efficiency savings and demand reduction program impacts. The information obtained from the local, publicly-owned electric utilities is being used by the CEC to present the progress made by the publicly-owned utilities on the State's goal of reducing electrical consumption by 10% within ten years and amelioration with the greenhouse gas targets presented in Executive Order S-3-05. In addition, the CEC will provide recommendations for improvement to assist each local, publicly-owned electric utility in achieving cost-effective, reliable, and feasible savings in conjunction with the established targets for reduction.

Renewable Portfolio Standards. In September 2002, the California Legislature enacted and the Governor signed into law Senate Bill 1078 ("SB 1078"). SB 1078 requires that the IOUs adopt a Renewable Portfolio Standard ("RPS") to meet a minimum of 1% of retail energy sales needs each year from renewable resources and to meet a goal of 20% of their retail energy needs from renewable energy resources by the year 2017. SB 1078 also directed the State's local, publicly-owned electric utilities to implement and enforce an RPS that recognizes the intent of the Legislature to encourage development of renewable resources, taking into consideration the impact on a utility's standard on rates, reliability, financial resources, and the goal of environmental improvement. On September 26, 2006, the Governor signed Senate Bill 107 ("SB 107") into law, which requires IOUs to have 20% of their electricity produced by renewable sources by 2010 and prescribes that local, publicly-owned electric utilities meet the intent of the legislation. On November 17, 2008, the Governor signed Executive Order S-14-08.

Among other things, Executive Order S-14-08 provides that the RPS target established for California shall require retail electricity sellers to serve 33% of their loads with eligible renewable energy resources by 2020. On September 15, 2009, the Governor signed Executive Order S-21-09. Executive Order S-21-09 provides, among other things, that CARB establish a regulation (described below) consistent with the 33% RPS target established in Executive Order S-14-08 and that CARB work with the CEC and CPUC to ensure that such regulation will build upon the existing RPS program and will regulate all California LSEs, including local, publicly-owned electric utilities. In addition, Executive Order S-21-09 provides that CARB may delegate policy development and implementation to CEC and CPUC, that CARB is to consult with the California Independent System Operator (the "ISO") and other balancing authorities on impacts on reliability, renewable integration requirements and interactions with wholesale power markets in carrying out the provisions of Executive Order S-21-09, and that CARB is to establish the highest priority for those resources with the least environmental costs and impacts on public health that can be developed most quickly and that support reliable, efficient and cost-effective electricity system operations, including resources and facilities located throughout the Western interconnection.

Since the implementation of SB 1078, the CPUC and the CEC have taken a number of actions that have had an impact on the renewable energy goals set by the legislation. 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 ("REC") trading system to meet the accelerated RPS goals. SB 107 allows this flexibility, with the condition that the renewable energy is delivered to an in-state trading hub. In parallel, pursuant to SB 1078, the CEC, collaboratively with the Western Governors' Association and the Western Electricity Coordinating Council ("WECC"), has established WREGIS, which is expected to ensure the integrity of RECs and prevent the double counting of the certificates. The electronic tracking system became operational in 2007.

On September 23, 2010, CARB unanimously adopted a regulation establishing its Renewable Energy Standard ("RES"), mandating that California's electric utilities, both public and investor-owned, procure 33% of their electricity from renewable resources by 2020. The RES requires utilities to submit plans by July 2012 on how they will achieve a 33% renewable resource portfolio by 2020, along with annual progress reports. Under the regulation, RES compliance is phased-in over the following intervals: 20% for 2012-2014; 24% for 2015-2017; 28% for 2018-2019; and 33% for 2020 and beyond. The RES may be met through the retirement of WREGIS certificates; however, there is no requirement that any energy be delivered to California. Under the regulation, WREGIS certificates may be retained or traded for up to three years, and utilities may also bank those certificates for compliance indefinitely.

Senate Bill X1 2 ("SBX1 2"), the "California Renewable Energy Resources Act," currently pending before the California legislature, if adopted, would codify the RPS target for retail electricity sellers to serve 33% of their loads with eligible renewable energy resources by 2020 as provided in Executive Order S-14-08. As proposed, SBX1 2 would make the requirements of the RPS program applicable to local publicly owned electric utilities (rather than just prescribing that local, publicly-owned electric utilities meet the intent of the legislation as under current law), except that a local, publicly-owned electric utility's governing board would be responsible for implementation of the requirements, rather than the CPUC, as is the case for the IOUs. In addition, certain enforcement authority with respect to local, publicly-owned electric utilities would be given to the CEC and CARB. As currently, proposed, SBX1 2 would grandfather any facility approved by the governing board of a local, publicly owned electric utility prior to June 1, 2010 for procurement to satisfy renewable energy procurement obligations adopted under prior law if the facility is a "renewable electrical generation facility" as defined in the bill. Renewable electric generation facilities would include certain out-of-state renewable energy generation facilities if, (i) the facility will not cause or contribute to any violation of a California environmental quality standard or requirement, (ii) it participates in the accounting system to verify compliance with the RPS program requirements, and (iii) the facility either (a) commenced initial commercial operation after

January 1, 2005 or (b) either (x) the electricity is from incremental generation resulting from expansion or repowering or the facility or (y) electricity generated by the facility was procured by a retail seller or local, publicly owned electric utility as of January 1, 2010.

See also APPENDIX A – "THE PARTICIPANTS" for additional information regarding the RPS of each of the Participants.

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

Direct Access. As part of the efforts to partially deregulate the California electric energy markets in the late 1990s, legislation was adopted to allow for the ability of electric customers, initially on a phased-in basis, to elect to obtain generation services from any source available on the open market, on terms and conditions and at prices, which, in general were to be negotiated by the customer and the supplier ("direct access"). Following the dysfunction in the market and the energy crisis in 2000 and 2001, Assembly Bill 1X ("AB 1X") was enacted to authorize the State to begin procuring power for the retail customers of the IOUs. AB 1X also required the CPUC to suspend the right of retail customers of the IOUs to purchase electricity from suppliers other than the State Department of Water Resources and the IOUs. Pursuant to AB 1X, on March 21, 2002, the CPUC suspended direct access and customer choice programs for the retail customers of the IOUs. However, in October 2009, California Senate Bill 695 ("SB 695") was signed into law, which deletes the existing suspension of direct access transactions for IOUs and instead requires the CPUC to authorize direct access transactions for nonresidential end-use customers of the IOUs subject to a phase-in schedule of not less than three years and not more than five years, and subject to an annual maximum allowable total kilowatt hour limit established for each IOU. On March 11, 2010, the CPUC approved a decision to implement the provisions of SB 695, setting the gigawatt direct access load limits for each of the three IOUs and providing for a four year phase-in schedule beginning April 11, 2010. SB 695 does not apply to local, publicly-owned electric utilities, such as the Participants, and none of the Participants has currently authorized a direct access program within its service territory. See, however, APPENDIX A – "THE PARTICIPANTS – MODESTO IRRIGATION DISTRICT – Rates and Charges."

Future Regulation

The electric industry is subject to continuing legislative and administrative reform. States routinely consider changes to the way in which they regulate the electric industry. Recently, both further deregulation and forms of additional regulation have been proposed for the industry, which has been highly regulated throughout its history. M-S-R PPA and the Participants are unable to predict at this time the impact any such proposals will have on the operations and finances of the Participants' respective electric systems or the electric utility industry generally.

Impact of Developments on M-S-R PPA and the Participants

The effect of the developments in the California energy markets described above on M-S-R PPA and the Participants cannot be fully ascertained at this time. Also, volatility in energy prices in California may return due to a variety of factors that affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, the adequacy of generation resources to meet peak demands, the availability and cost of renewable energy, the impact of greenhouse gas emission legislation and regulations, fuel costs and availability, weather effects on customer demand, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). See "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY." This price volatility may contribute to greater volatility in the revenues of their respective electric systems from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Participants' respective electric systems. Each of the Participants, individually and/or through joint powers agencies in which it participates, undertakes resource planning and risk management activities and manages its resource portfolio to mitigate such price volatility and spot market rate exposure. For a discussion of each of the Participant's current resource planning activities, see "Power Supply Resources – Future Power Supply Resources" in each of the Participant's sections in APPENDIX A – "THE PARTICIPANTS."

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Federal Energy Legislation

Energy Policy Act of 2005. In August 2005, then President Bush signed the Energy Policy Act of 2005 ("EPAct 2005"). EPAct 2005 expands FERC's jurisdiction to require municipal utilities that sell more than eight million MWhs of energy per year to pay refunds under certain circumstances for sales into organized markets. EPAct 2005 also provides for mandatory reliability standards to increase system reliability and minimize blackouts, in addition to criminal and civil penalties for manipulative energy trading practices. EPAct 2005 authorizes FERC to issue permits to construct or modify transmission facilities located in a national interest electric transmission corridor if FERC determines that the statutory conditions are met. EPAct 2005 also requires the creation of an electric reliability organization ("ERO") to establish and enforce, under FERC supervision, mandatory reliability standards to increase system reliability and minimize blackouts. Failure to comply with such mandatory standards exposes a utility to significant fines and penalties by the ERO.

Under EPAct 2005, IOUs must offer each of its customer classes a time-based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state has unreasonably withheld approval. EPAct 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies. EPAct 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection and provides incentives for the construction of new nuclear plants.

So far the most visible impact of EPAct 2005 for the Participants has been the development of federal reliability standards, but it is still somewhat premature to predict the full impact that EPAct 2005 will have on the Participants or the electric utility industry generally.

NERC Reliability Standards. EPAct 2005 required FERC to certify an ERO to develop mandatory and enforceable reliability standards, subject to FERC review and approval. The reliability standards apply to users, owners and operators of the Bulk-Power System, as more specifically set forth in each reliability standard. On February 3, 2006, FERC issued Order 672, which certified the North American Electric Reliability Corporation ("NERC") as the ERO. Many reliability standards have since been approved by FERC.

The ERO or the entities to which NERC has delegated enforcement authority through an agreement approved by FERC ("Regional Entities"), such as the WECC, may enforce the reliability standards, subject to FERC oversight, or FERC may independently enforce reliability standards. Potential monetary sanctions include fines of up to $1 million per violation per day. FERC Order 693 further provided the ERO and Regional Entities with the discretion necessary to assess penalties for such violations, while also having discretion to calculate a penalty without collecting the penalty if circumstances warrant. On March 18, 2010, FERC issued a Policy Statement on Penalty Guidelines, which appeared to envision the option of more serious penalties than would be imposed by NERC. NERC and a significant part of the industry have challenged that Policy Statement and several other orders issued the same day with respect to reliability. FERC suspended the effectiveness of the policy in order to receive comments and on September 17, 2010, FERC issued a Revised Policy Statement on Penalty Guidelines, which clarified and tempered some of its prior statements, although the revised guidelines maintained that it was appropriate to use the U.S. Criminal Sentencing Guidelines Model as an analytical tool for assessing penalties.

See also APPENDIX A – "THE PARTICIPANTS – MODESTO IRRIGATION DISTRICT – Litigation – *Operations Under Mandatory Reliability Standards.*"

Other Legislation. Numerous bills have been under consideration by Congress addressing United States energy policies and various environmental matters, including those related to energy supplies, global warming and water quality. Many of these bills, if enacted into law, could have a material impact on the Participants' respective electric systems and the electric utility industry generally. The United States Congress has considered and/or is considering various energy and climate change-related pieces of legislation that propose, among other things, a cap-and-trade system to regulate and reduce the emission of carbon dioxide and other greenhouse gases and a federal renewable energy portfolio standard. The impact that federal greenhouse gas cap-and-trade legislation will have on the Participants' respective electric systems and the electric utility industry and business generally depends largely on the specific provisions of the legislation that ultimately become law. Some of the important factors to be addressed in such legislation include the timing and magnitude of the emissions cap, the extent to which emissions allowances are either allocated or auctioned to the highest bidder, the extent to which emissions may be offset by other actions, whether there will be a cap on the price of emissions allowances and the allocation of proceeds from the auction of allowances. Other areas of consideration for inclusion in this legislation include, but are not limited to, the development and deployment of alternative fuels, renewable energy resources, and energy conservation measures. The timeline and impact of any climate change legislation cannot be accurately assessed at this time, but it is expected that any such federal action will have a significant impact on fossil-fueled generation facilities.

ISO FERC Filings

MRTU Filing; Implementation of MRTU. On February 9, 2006, the ISO filed with FERC the first set of tariff language to implement its FERC ordered overhaul of the ISO markets. The ISO's MRTU tariff amendment included provisions intended to perform effective congestion management in the ISO day-ahead market by enforcing all transmission constraints so as to establish feasible forward transmission schedules; create a day-ahead market for energy; automate real-time dispatch so as to balance the system and manage congestion in an optimal manner; and ensure consistency in the allocation of transmission resources to grid users and the pricing of transmission service and energy. On September 21, 2006, FERC issued an order conditionally accepting the MRTU filing. Subsequent MRTU amendments were designed to ensure that the ISO has sufficient capacity available to maintain reliability on the ISO grid. MRTU went on-line on April 1, 2009.

Elements of the redesign that could entail significant financial impacts include the implementation of Locational Marginal Pricing ("LMP") to price transmission, the use of marginal rather than average transmission losses, and the phasing out of liquidated damages power purchase contracts for resource adequacy or similar purposes. No assurances can be given by M-S-R PPA or the Participants that unforeseen events will not occur under MRTU or various proposed amendments to the basic MRTU framework; thus, it is impossible to predict at this time the ultimate impact of MRTU on the Participants' respective electric systems or the California electric utility industry generally.

Resource Adequacy Requirements. On March 13, 2006, the ISO filed with FERC a tariff amendment to establish an Interim Reliability Requirements Program (the "IRR Program"). The IRR Program incorporated most of the existing CPUC resource adequacy requirements into the ISO Tariff beginning in June 2006. The ISO's filing imposed the IRR Program requirements on LSEs (CPUC-jurisdictional entities and non-CPUC-jurisdictional entities). On May 12, 2006, FERC approved, for the most part, the ISO's IRR Program filing.

The IRR Program exempted load-following Metered Subsystems ("MSSs") from most of the ISO Tariff resource adequacy provisions, and the tariff also provides significant deference to the local governing boards of municipal and cooperative entities in establishing qualifying reliability standards. The CPUC has subsequently expanded upon its initial resource adequacy requirements, in particular by adding local capacity requirements to make certain that sufficient generating capacity is procured in particular areas where it is lacking. The ISO has also incorporated these provisions into its tariff, which FERC has approved. The IRR Program sunset upon implementation of MRTU. Under MRTU, certain of the local capacity requirements do apply to MSS entities. For example, to the extent that a LSE fails to meet such a requirement, it is subject to payment of ISO procurement costs of replacement capacity. To the extent that a shortfall cannot be attributed to a specific LSE, the costs will be spread as part of market uplift charges. These risks will apply in the same manner to all LSEs.

Finally, the CPUC is currently studying the possibility of meeting future capacity needs by either extending the existing resource adequacy program with some modification or by instituting centralized capacity markets. Although this proposal has not yet advanced, it remains a possibility. M-S-R PPA and the Participants are unable to predict at this time the impact of any future proceedings in this regard on the Participants' respective electric systems or the California electric utility industry generally.

Environmental Issues

General. Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any Agency or Participant facility or project will remain subject to the laws and regulations currently in effect, will always be in compliance with future laws and regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures, reduced operating levels or the shutdown of individual units not in compliance. In addition, increased environmental laws and regulations may create certain barriers to new facility development, may require modification of existing facilities and may result in additional costs for affected resources.

Greenhouse Gas Regulations Under the Clean Air Act. The EPA has taken steps to regulate greenhouse gas emissions under existing law. In 2009, the EPA issued a final "endangerment finding," in which it declared that the weight of scientific evidence requires a finding that six identified greenhouse gases – carbon dioxide, methane, nitrous oxide, hydroflourocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The final rule for the "endangerment finding" was published in the Federal Register on December 15, 2009. As a result of this finding, the EPA is authorized to issue regulations limiting carbon dioxide emissions from, among other things, stationary sources such as electric generating facilities, under the Clean Air Act. The "Tailoring Rule," states that greenhouse gas emissions will be regulated from large stationary sources, including electric generating facilities, based on specified threshold levels of the tons per year of greenhouse gases emitted, using a unit known as the carbon dioxide equivalent, or CO_2e. Large sources with the potential to emit in excess of the applicable threshold will be subject to the major source permitting requirements under the Clean Air Act. Permits would be required in order to construct, modify and operate facilities exceeding the emissions threshold. Examples of such permitting requirements include, but are not limited to, the application of Best Available Control Technology (known as BACT) for greenhouse gas emissions, and monitoring, reporting, and recordkeeping for greenhouse gases.

On September 22, 2009, the EPA issued the final rule for mandatory monitoring and annual reporting of greenhouse gas emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct greenhouse gas emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but required data collection to begin on January 1, 2010, and initially provided that the first annual reports would be due March 31, 2011. However, the EPA has announced that it is extending the initial reporting deadline until later in 2011 in order finalize development of software to be utilized for such reporting. Such data collection and reporting lays the foundation for controlling and reducing greenhouse gas emissions in the future, whether by way of the EPA regulations under existing Clean Air Act authority or under a new climate change federal law.

On December 23, 2010, the EPA announced two settlements with a number of states and environmental groups. The settlements commit the EPA to issuing proposed regulations by July 26, 2011, and finalized regulations by May 26, 2012, to reduce emissions from power plants and oil refineries.

Air Quality – National Ambient Air Quality Standards. The Clean Air Act requires that the EPA establish National Ambient Air Quality Standards ("NAAQS") for certain air pollutants. When a NAAQS has been established, each state must identify areas in its state that do not meet the EPA standard (known as "non-attainment areas") and develop regulatory measures in its state implementation plan to reduce or control the emissions of that air pollutant in order to meet the applicable standard and become an "attainment area." For example, on January 7, 2010, the EPA released a draft rule proposing stricter NAAQS for ground-level ozone, the main component of smog. The EPA plans to follow an aggressive implementation schedule that could require states to meet the new NAAQS as early as 2014. However, the EPA has delayed issuing final standards, indicating that it will need until July 2011 to analyze research on the smog rules. If this proposed rule becomes final, many air pollution sources in California including power plants, industrial facilities, and motor vehicles will likely face stricter emission standards.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above,

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

M-S-R PPA and the Participants are unable to predict what impact such factors will have on the business operations and financial condition of the Participants' respective electric systems, but the impacts could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Series 2011O Bonds should obtain and review such information. Such information is not incorporated herein by reference.

RATE REGULATION

General Rate-Setting Authority. Each Participant sets rates, fees and charges for electric service. The authority of the Participants to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the regulatory jurisdiction of the CPUC and presently neither the CPUC nor any other regulatory authority of the State of California nor FERC approves such rates and charges. Although the retail rates of the Participants are not subject to approval by any federal agency, the Participants are subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA") and Sections 211-213 of the Federal Power Act (the "FPA"). It is possible that future legislative and/or regulatory changes could subject the rates and/or service areas of the Participants to the jurisdiction of the CPUC or to other limitations or requirements.

Other Regulatory Power. FERC could potentially assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the FPA, although it has not as a practical matter exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. If it did assert such jurisdiction, the result might have some significance for certain of the Participants that own hydroelectric projects.

Under Sections 211, 212 and 213 of the FPA, FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at FERC-approved rates. In addition, the EPAct expanded FERC's jurisdiction to require municipal utilities that sell more than eight million megawatt hours of energy per year to pay refunds under certain circumstances for sales into organized markets. The Participants are unable to predict when, if ever, any of them would meet this threshold requirement.

The CEC is authorized to evaluate rate policies for electric energy as related to the goals of the Energy Resources Conservation and Development Act and to make recommendations to the Governor, the Legislature and publicly owned electric utilities.

CONSTITUTIONAL LIMITATIONS ON GOVERNMENTAL SPENDING

Articles XIIIC and XIIID of the State Constitution

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIIIC and XIIID to the State Constitution. Article XIIID creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and "property-related" fees and charges. Article XIIID explicitly exempts fees for the provision of electric service from the provisions of such article. Nevertheless, Proposition 218 could indirectly affect some California municipally-owned electric utilities. For example, to the extent Proposition 218 reduces a city's general fund revenues, that city could seek to increase the transfers from its electric utility to its general fund.

Article XIIIC expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. The terms "fees and charges" are not defined in Article XIIIC, although the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006), that the initiative power described in Article XIIIC may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIIID. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIIID) might be subject to the initiative provision of Article XIIIC, thereby subjecting such fees and charges imposed by the Participants to reduction by the electorate. The Participants believe that even if the electric rates of each of the Participants are subject to the initiative power, under Article XIIIC or otherwise, the electorate of each of the Participants would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the Series 2011O Bonds by virtue of the "impairment of contracts clause" of the United States and California Constitutions.

Other Initiatives

Articles XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, including presently, other initiatives have been, and could be, proposed, and if qualified for the ballot, could be adopted affecting the Participants' electric system revenues or operations. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be predicted by M-S-R PPA or the Participants.

One such initiative, recently approved by the electorate at the November 2, 2010 election, is Proposition 26. The initiative imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the State or local government of providing the service or product to the payor." Although the Participants believe that the initiative was not intended to apply to fees for utility services such as those charged by the Participants, it is possible that Proposition 26 could be interpreted to limit fees and charges for electric utility services charged by governmental entities to preclude future transfers of electric utility generated funds to a local government's general fund and/or require stricter standards for the allocation of costs among customer classes. M-S-R PPA and the Participants are unable to predict at this time how Proposition 26 will be interpreted by the courts or what its ultimate impacts will be.

On February 4, 2011, a complaint was filed in Shasta County Superior Court against Redding, challenging the legality of Redding's rate increase approved by its City Council on December 7, 2010. In brief summary, the complaint alleges that Redding's rate increase violates Propositions 26 and 62 because the rate increase included projections for revenue necessary to make an annual payment in lieu of taxes ("PILOT") from the Redding electric utility to Redding's general fund and that the PILOT does not qualify within the above referenced exception as a reasonable cost related component to providing electric service. Redding is defending the case vigorously and cannot predict at this time how the PILOT will be affected, if at all, by this case. The Redding City Attorney does not believe that an adverse ruling in this case would affect Redding's electric rates in a manner that would adversely affect the amount of revenues necessary to operate Redding's electric utility or its ability to make payments to M-S-R PPA under the Power Sales Agreement.

INDEPENDENT ACCOUNTANTS

The financial statements of M-S-R PPA as of and for the Fiscal Year ended December 31, 2009 and December 31, 2008 included in Appendix B to this Official Statement have been audited by Baker Tilly Virchow Krause, LLP, independent auditors, as stated in their report, which also appears in Appendix B. Baker Tilly Virchow Krause, LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in such report. Baker Tilly Virchow Krause, LLP has also not performed any procedures relating to this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations prepared by the Underwriter relating to the sufficiency of amounts to be applied to the refunding of the Series I Bonds will be verified by Causey Demgen & Moore Inc., Denver, Colorado, a firm of independent certified public accountants.

RATINGS

It is expected that Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings, Inc. ("Fitch") will assign the Series 2011O Bonds the ratings of "_____" and "____," respectively. No application has been made to any other rating agency for the purpose of obtaining any additional rating on the Series 2011O Bonds. Any desired explanation of such ratings should be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings may have an adverse effect on the market price of the Series 2011O Bonds.

FINANCIAL ADVISOR

Montague DeRose and Associates, LLC (the "Financial Advisor") has assisted the Agency with various matters relating to the planning, structuring and issuance of the Series 2011O Bonds. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

UNDERWRITING

The Series 2011O Bonds are being purchased pursuant to a purchase contract between M-S-R PPA and J.P. Morgan Securities LLC ("JPMS"), as Underwriter of the Series 2011O Bonds. The Underwriter has agreed to purchase the Series 2011O Bonds at an aggregate purchase price of $_________ (equal to the $_________ aggregate principal amount of the Series 2011O Bonds, [plus/less] original issue [premium/discount] of $_______ and less an Underwriter's discount of $_________). The purchase contract for the Series 2011O Bonds provides that the Underwriter will purchase all of the Series 2011O Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the purchase contract.

The Underwriter may offer and sell the Series 2011O Bonds to certain dealers and others at prices or yields below the respective prices or yields stated on the cover page of this Official Statement. The offering prices or yields may be changed from time to time by the Underwriter.

JPMS, the Underwriter of the Series 2011O Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series 2011O Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase the Series 2011O Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2011O Bonds that such firm sells.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to M-S-R PPA ("Bond Counsel"), 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 Series 2011O Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2011O 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. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the Series 2011O Bonds is less than the amount to be paid at maturity of such Series 2011O Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2011O Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2011O Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2011O Bonds is the first price at which a substantial amount of such maturity of the Series 2011O 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 Series 2011O Bonds accrues daily over the term to maturity of such Series 2011O 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 Series 2011O Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2011O Bonds. Beneficial Owners of the Series 2011O Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2011O Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2011O Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2011O Bonds is sold to the public.

Series 2011O Bonds purchased, whether at original execution and delivery or otherwise, for an amount higher 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 Series 2011O 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 Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds 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 Series 2011O Bonds. M-S-R PPA has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2011O 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 Series 2011O Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2011O 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), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2011O Bonds may adversely affect the value of, or the tax status of interest on, the Series 2011O Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2011O Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011O Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial 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 Series 2011O Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2011O Bonds. Prospective purchasers of the Series 2011O Bonds should consult their own tax advisors 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 Series 2011O 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 M-S-R PPA, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. M-S-R PPA has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2011O Bonds ends with the issuance of the Series 2011O Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend M-S-R PPA or the Beneficial Owners regarding the tax-exempt status of interest on the Series 2011O Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than M-S-R PPA and their appointed counsel, including the Beneficial 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 tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which M-S-R PPA legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2011O 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 Series 2011O Bonds, and may cause M-S-R PPA or the Beneficial Owners to incur significant expense.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2011O Bonds or in any way contesting or affecting the validity of the Series 2011O Bonds or any proceedings of M-S-R PPA taken with respect to the issuance or sale thereof.

At any given time, including the present, there are certain other claims and disputes, including those currently in litigation, that arise in the course of M-S-R PPA's activities. Such matters could, if determined adversely to M-S-R PPA, affect M-S-R PPA's revenues. M-S-R PPA and its General Counsel are of the opinion that no pending actions are likely to have a material adverse effect on M-S-R PPA's ability to pay debt service on the Series 2011O Bonds when due.

For a discussion of related investigations and litigation involving the Participants and the status thereof, see the discussion under "Litigation" for each of the Participants in APPENDIX A – "THE PARTICIPANTS."

APPROVAL OF LEGAL PROCEEDINGS

The validity of the 2011O Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to M-S-R PPA. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX F. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for M-S-R PPA by its General Counsel and for the Underwriter by Fulbright & Jaworski L.L.P., Los Angeles, California.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by M-S-R PPA.

M-S-R PUBLIC POWER AGENCY

By____
President of the Commission

By____
General Manager

APPENDIX A

THE PARTICIPANTS

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF M-S-R PPA FOR THE FISCAL YEARS ENDED DECEMBER 31, 2009 AND 2008

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix C concerning The Depository Trust Company, New York, New York ("DTC"), and DTC's book-entry system has been obtained from DTC and M-S-R PPA and the Trustee take no responsibility for the completeness or accuracy thereof. M-S-R PPA and the Trustee cannot and do not give any assurances that DTC, Direct Participants (as defined below) or Indirect Participants (as defined below) will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2011O Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2011O Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2011O Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Appendix C. M-S-R PPA, the Trustee and the Underwriter are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2011O Bonds or an error or delay relating thereto. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC's Direct Participants and Indirect Participants are on file with DTC.

DTC will act as securities depository for the Series 2011O Bonds. The Series 2011O Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2011O Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to Direct and Indirect 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*. The information on these websites is not incorporated herein by reference.

Purchases of Series 2011O Bonds under the DTC book-entry system must be made by or through Direct Participants, which will receive a credit for the Series 2011O Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011O Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011O Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2011O Bonds, except in the event that use of the book-entry system for the Series 2011O Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011O 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 the Series 2011O Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011O Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011O Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2011O Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011O Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2011O Bond documents. For example, Beneficial Owners of the Series 2011O Bonds may wish to ascertain that the nominee holding the Series 2011O Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2011O Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011O Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to M-S-R PPA 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 Series 2011O Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Series 2011O 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 M-S-R PPA or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect 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 Direct or Indirect Participant and not of DTC, the Trustee, or M-S-R PPA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Series 2011O Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of M-S-R PPA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2011O Bonds at any time by giving notice to the Trustee and M-S-R PPA. Under certain circumstances, in the event that a successor depository is not obtained, Series 2011O Bond certificates are required to be printed and delivered.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Series 2011O Bonds may be exchanged for a like aggregate principal amount of Series 2011O Bonds of the same series and maturity in other authorized denominations, upon surrender thereof at the corporate trust office of the Trustee in St. Paul, Minnesota or such other or additional offices as may be designated by the Trustee from time to time (the "Principal Office"); (b) the transfer of any Series 2011O Bonds may be registered on the books maintained by the Trustee under the Indenture for such purpose only upon the surrender thereof to the Trustee at the Principal Office of the Trustee, together with a duly executed written instrument of transfer in a form approved by the Trustee; (c) for every exchange or transfer of Series 2011O Bonds, the Trustee shall require the payment by any owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer; (d) all interest payments on the Series 2011O Bonds will be made by check mailed by the Trustee to the persons in whose name the Series 2011O Bonds are registered on the registration books maintained by the Trustee at the close of business on the 15th day of the month preceding such interest payment date; and (e) all payments of principal of and any premium on the Series 2011O Bonds will be paid by check upon the presentation and surrender thereof at the Principal Office of the Trustee.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF RELATED DOCUMENTS

APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENTS

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX G

DEBT SERVICE REQUIREMENTS ON ALL SAN JUAN PROJECT BONDS

The table below shows the combined debt service on all outstanding and unrefunded San Juan Project Revenue Bonds. It includes the effects of the issuance of the Series 2011O Bonds. See "PLAN OF REFUNDING" herein.

	Senior Lien Debt Service[1]			Subordinate Lien Debt Service[2]			Series 2011O Bonds			
Year Ending (July 1)	Principal	Interest	Total[4]	Principal	Interest[3]	Total[4]	Principal	Interest	Total[4]	Total Debt Service
Total[4]										

[1] Includes the Series I Bonds refunded by the Series 2011O Bonds. See "PLAN OF REFUNDING" herein.
[2] Excludes the Series 2011O Bonds. See "PLAN OF REFUNDING" herein.
[3] Assumes an annual interest rate of 4.48% on the Series 2008M (Tax-Exempt) and an annual interest rate of 5.97% on the Series 2008N (Taxable) Bonds. Gives effect to the interest rate swaps entered into by M-S-R PPA in connection with such bonds. In addition to the foregoing fixed swap payment, there are ongoing fees associated with liquidity and remarketing fees in connection with such bonds.
[4] Totals may not add due to rounding.

APPENDIX A

THE PARTICIPANTS

The following pages present information as to the location, organization, population, economic base, energy systems, service areas and customers of the Modesto Irrigation District ("Modesto"), the City of Santa Clara, California ("Santa Clara") and the City of Redding, California ("Redding"), as the Members of M-S-R PPA and the Participants in the San Juan Project. Pursuant to the Power Sales Agreement, the three Members of M-S-R PPA are the Participants in the San Juan Project in the following percentage participations: Modesto–50%; Santa Clara–35% and Redding–15%.

The information in this Appendix A was collected and compiled from data supplied by each Participant. Text descriptions were developed in consultation with Participant representatives; statistical facts were extracted from records and logs regularly maintained by each Participant. Historical financial data was summarized from the Participants' audited financial statements or from the unaudited financial information supplied to M-S-R PPA by each Participant. The Participants' independent accountants have not compiled or examined this summarized financial data and forward looking financial information and accordingly, do not express an opinion or any form of assurance, implied or otherwise, with respect thereto.

M-S-R PPA makes no representations as to the accuracy or completeness of the information contained in this Appendix A. Each Participant makes no representations as to the accuracy or completeness of the information contained in this Appendix A with respect to the other Participants.

MODESTO IRRIGATION DISTRICT

Introduction

Modesto is a California irrigation district organized in 1887 under the provisions of the California Irrigation District Act, Division 11 of the California Water Code (the "Irrigation District Act"). Modesto has the powers under the Irrigation District Act to, among other things, provide irrigation and electric service. In connection therewith, Modesto has the powers of eminent domain, to contract, to construct works, to fix rates and charges for commodities or services furnished, to lease its properties and to incur indebtedness.

Modesto is governed by a Board of Directors, the five members of which are elected from separate electoral divisions within its irrigation district boundaries for staggered four-year terms. Modesto's operations are carried out under the direction of the General Manager who is in charge of Modesto's operations in accordance with the Board of Director's directives and policies.

Modesto is located in the San Joaquin Valley of Central California, approximately 90 miles east of San Francisco, California. Modesto began providing electric service in 1923, and since 1940 has provided all electric service within its original 160 square mile service area, which includes the major portion of Stanislaus County. Beginning in 1996, Modesto has also provided electric service on a competitive basis in portions of the service area of Pacific Gas & Electric Company ("PG&E"). California Assembly Bill 2638 ("AB 2638"), effective on January 1, 2001, added the 7.5 square mile Mountain House Community Services District in western San Joaquin County to Modesto's exclusive electric service area and also designated a 400 square mile area in Southern San Joaquin County, Northern Stanislaus County and western Tuolumne County as Modesto's non-exclusive electric service area. Pursuant to AB 2638, other than as set forth therein, Modesto is further prohibited from providing electric transmission or distribution service to retail customers in the service territory of PG&E. See "Litigation – CPUC Cost Responsibility Surcharge" below. For the year ended December 31, 2010, Modesto served 113,078 customers, had total retail sales of 2.429 billion kWh and a peak demand of 641 MW.

To provide electric service within its service area, Modesto owns and operates an electric system which includes generation, transmission and distribution facilities. Modesto also purchases and sells power and transmission service and participates in pooling and other utility arrangements.

Modesto also supplies water for irrigation use in a portion of Stanislaus County and owns and operates a water treatment plant which supplies treated domestic water on a wholesale basis to the City of Modesto. Modesto's irrigation system, as well as revenue from the sale of treated water, is operated and accounted for separately from the electric system. The electric system has no claim on the revenues of the irrigation or treated water systems and hence funds of the irrigation and treated water systems are not available to pay amounts owed by Modesto under the Power Sales Agreement.

Modesto's main office is located at 1231 Eleventh Street, Modesto, California (209) 526-7373. A copy of the most recent annual report of Modesto and its electric operations (the "Annual Report") may be obtained from the Assistant General Manager, Finance and Treasurer, at the above address and phone number, and is also available on Modesto's website at *www.mid.org/about*. The Annual Report is incorporated herein by this reference. However, the information presented on such website or referenced therein other than the Annual Report is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2011O Bonds.

Power Supply Resources

The following table sets forth information concerning Modesto's power supply resources and the energy supplied by each during the year ended December 31, 2010.

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MODESTO IRRIGATION DISTRICT
POWER SUPPLY RESOURCES

Source	Historical - Year Ending December 31, 2010 Capacity Available (MW)	Actual Energy (GWh)	Percent of Total Energy
Generating Facilities:			
Don Pedro/Stone Drop (Hydro)	62.0	217.5	8.3%
Woodland 1 (Combustion Turbine)	48.0	22.1	0.8
Woodland 2 (Combustion and Steam Turbines)	83.0	347.7	13.2
Ripon Generation Station	96.0	25.7	1.0
McClure (Combustion Turbine, 2 units)	122.0	5.3	0.2
Total[(1)]	411.0	618.3	23.5
Purchased Power:			
M-S-R PPA			
San Juan	73.0	441.9	16.8%
Big Horn Wind Project[(2)]	11.0	74.3	2.8
Bonneville Power Administration	25.0	14.9	0.6
City and County of San Francisco[(3)]	45.0	105.2	4.0
EDF Trading	25.0	19.5	0.7
Powerex	88.0	27.7	1.1
Western Area Power Administration	5.0	12.9	0.5
Other Renewable[(4)]	99.1	355.0	13.5
Other Purchases[(5)]	-	966.5	36.7
Total[(1)(6)]	371.1	2,017.9	76.7
Total Energy Resources (Generated + Purchased)[(1)]	782.1	2,636.2	100.0%
Load:			
District System Requirement for Retail	–	2,601.6	98.7%
Wholesale Power Sales:[(7)(8)]			
Calpine Corporation	–	0.7	0.1%
Constellation Energy	–	0.8	0.1
Morgan Stanley Capital Group	–	6.4	0.2
PacifiCorp		1.2	0.1
Other Sales[(8)]	–	25.5	1.0
Total Capacity and Energy Sold at Wholesale.	–	34.6	1.3
Total District Load[(1)]	782.1	2,636.2	100.0%

(1) Totals may not add due to rounding and are subject to end-of-year reconciliation updates.

(2) Represents Modesto's 12.5% share of the 199.5 MW Big Horn Project located in Klickitat County, Washington through M-S-R PPA. In addition, beginning in November 2010 includes Modesto's 65.0% share of the Big Horn II Project through M-S-R PPA, a 50 MW expansion of the Big Horn Project. See "– Joint Powers Agency Resources – *M-S-R PPA Purchased Power–Big Horn Wind Energy Project*" below.

(3) Class 1 firm energy included.

(4) Includes 25 MW purchase from the High Winds Project located in Solano County, California commencing June 1, 2004 through June 30, 2015 and an additional 25 MW from July 1, 2015 to June 30, 2028, a 50 MW purchase from the Shiloh Project located in Solano County, California, for a 10-year term commencing June 1, 2006 through May 31, 2016, and the purchase of the output from 98.7 MW of the Star Point Project located in Sherman County, Oregon with a 20-year term commencing June 1, 2010 to May 31, 2030. Prior to implementation of MRTU by the ISO, capacity based on maximum shaped hourly delivery. The energy amounts are also representative of the total energy that was metered at the specific project for which Modesto will use to meet its Renewable Portfolio Standard, subject to final reconciliation of renewable energy credits. See "– Purchased Power – *Renewable Resources; Modesto Renewable Portfolio Standard*" below. See also "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ISO FERC Filings" in the forepart of this Official Statement.

(5) In 2010, Other Purchases includes six contracts with Morgan Stanley Capital Group, Constellation Power Source, Inc. and Iberdrola Renewables, Inc. (formerly PPM Energy, Inc.). See "– Purchased Power – *Other Long-Term Purchases*" below. Other Purchases also include reserves consistent with prudent utility practices: historical (actual) operation reserves require available supply of 107% of actual capacity load and projected (planning) reserves assume capacity supply of 115% of projected load. Direct load control and interruptible contracts (30 MW) count towards planning reserves. Contracts assumed to have terms of less than three years.

(6) This total does not include transfers for energy that was not physically delivered to Modesto's electric system from renewable energy resource projects.

(7) Modesto anticipates 155 GWh of wholesale power sales in 2011. See "Wholesale Power" below.

(8) Wholesale sales are made on a short-term basis depending on availability of resources.

Source: Modesto Irrigation District.

Generating Facilities

Don Pedro Hydroelectric Project. Modesto, together with Turlock Irrigation District ("Turlock"), a California irrigation district, also formed under the Irrigation District Act, owns a hydroelectric generating plant located at the Don Pedro reservoir on the Tuolumne River which has four turbine -generators with a combined rating of 199 MW (the "Don Pedro Project"). The Don Pedro Project is operated by Turlock. Three turbine generators have been in operation since May 1971 and the fourth unit was completed in April 1989. Modesto's ownership share of 31.54% of the Don Pedro Project equates to approximately 62 MW during average water years and 45 MW during adverse water years based on the installed capacity of 199 MW. Modesto's share of generation from the Don Pedro Project for 2010 was 218 GWh, and is expected to be 200 GWh for 2011 (based upon above average water conditions which existed in 2010).

The Don Pedro Project is operated pursuant to a license issued by the Federal Energy Regulatory Commission ("FERC") which runs through 2016. Modesto and Turlock are in the process of re-licensing the Don Pedro Project. The operations are also subject to a settlement agreement that, among other things, requires minimum instream fish flows, and these requirements will, from time to time, affect the monthly hydroelectric generating capacity available at Don Pedro. However, Modesto does not expect that the increased flows will materially adversely affect the operations of the Don Pedro Project and the electric system.

New Hogan Hydroelectric Project. The New Hogan hydroelectric project, which has a nameplate rating of 2.9 MW and was placed in service in 1986, is located on the Calaveras River in Calaveras County, California and is owned by the Calaveras County Water District ("CCWD"). Modesto operates the New Hogan hydroelectric project under an agreement which expires in 2036. Pursuant to this agreement, Modesto maintains and operates the New Hogan hydroelectric project and is entitled to the output thereof. As of June 1, 2010 the entire output of the New Hogan hydroelectric project has been sold into the California Independent System Operation (the "ISO") and the renewable energy credits (RECs) are being tracked to count the energy output towards Modesto's Renewable Portfolio Standard. In 2010, production at the New Hogan hydroelectric project was approximately 4 GWh.

McClure Turbine Generating Units. Modesto owns two dual fuel (natural gas and oil) combustion turbine generating units (McClure Stations 1 and 2). These units were placed in service in 1980 and 1981, each having a nameplate rating of 56 MW during the summer and 61 MW during the winter months. The McClure units operate under permits issued by the San Joaquin Valley Unified Air Pollution Control District, using water injection for emissions control. Modesto completed a retrofit to the McClure turbine-generating units to meet the higher federal emission standards in 2006. Modesto also purchased additional emission reduction credits (ERCs) that would offset emissions and allow for each unit's operating hours to be extended from 1,500 hours to approximately 3,000 hours on an annual basis. At this time, Modesto plans to utilize this facility as a peaking generation facility during the summer months and as an emergency response facility to meet Modesto's native load requirements.

Woodland Generation Station Project. Modesto constructed and placed into operation in October 1993 a 49.4 MW simple cycle electric power generation plant known as the Woodland Generation Station 1 Project. In June 2003, Modesto placed into commercial operation its Woodland Generation Station 2 Project which added 83 MW of generation to the project in a combined cycle gas turbine configuration. The Woodland Generation Station facilities include a steam-injected combustion turbine generator for the Woodland Generation Station 1 Project and a water–injection system for the Woodland Generation Station 2 Project in combined cycle configuration with a steam turbine, together with a switching station, transmission upgrades and Selective Catalytic Reduction systems and carbon monoxide catalysts to reduce nitrous oxide and carbon monoxide emissions. The plants are located on Woodland Avenue in the City of Modesto, on a site owned by Modesto within Modesto's electric service area. The Woodland Generation Station 1 Project can burn either diesel or natural gas. Modesto has the capability to store 500,000 gallons of diesel fuel on site. Natural gas is delivered to the project from PG&E, the local gas distribution company. The Woodland Generation Station projects provide Modesto with operational flexibility. Over time, the Woodland Generation Station 1 Project has been used more as an intermediate and peaking unit while the Woodland Generation Station 2 Project is used more as a baseload resource by Modesto. Since January, 2011, the Woodland Generation Station 1 combustion turbine has been out of service and is currently undergoing a 50,000 hours scheduled maintenance. At this time, Modesto anticipates that repairs will be made in time for the unit to be back in service before the summer of 2011. At a burner tip natural gas price of $7.50/MMBtu, the Woodland Generation

Station 1 and 2 Projects are able to generate electricity at a total operating cost of $70 MWh and $62 MWh, respectively. In 2010, the combined two unit production at the Woodland Generation Station was 370 GWh. During 2011, the Woodland Generation Station is anticipated to generate 354 GWh.

Ripon Generation Station Project. Modesto constructed and placed into commercial operation in June 2006, a nominal 96 MW two unit simple cycle power plant, designated by Modesto as its "Ripon Generation Station." The project facilities include two natural gas-fired combustion turbines, a zero liquid discharge system, a water injection system, transmission upgrades, and Selective Catalyst Reduction systems and carbon monoxide catalysts to reduce nitrous oxide and carbon monoxide emissions. The water supply is provided by the City of Ripon from non-potable water wells. Natural gas is provided to the facility from a number of suppliers and delivered by PG&E. This project supports Modesto's policy regarding long-term and short-term electric resources adopted and refined in July 2002. The Ripon Generation Station provides a long-term hedge against market volatility and industry uncertainty when meeting Modesto's native load requirements. At a burner tip natural gas price of $7.50/MMBtu during Modesto's system peak, the Ripon Generation Station units are able to generate electricity at a total operating cost of $76/MWh each, based upon the units' heat rating. During 2010, the production at the Ripon Generation Station was 26 GWh. During 2011, the Ripon Generating Station is anticipated to generate 25 GWh.

Modesto's Natural Gas Acquisition Activities. Modesto's natural gas activities are undertaken consistent with the Risk Management Program (the "RMP") approved by Modesto's Board of Directors (see "Risk Management Program" below). The RMP prescribes risk limits for staff to follow while trying to achieve Modesto's financial and operational goals in the natural gas market.

The Board policy is to maintain Value at Risk below $19 million over a 10-day holding period where natural gas and electric power price are combined. Modesto also has a policy of hedging at least 60% of its natural gas one year ahead, 40% two years ahead, and 20% three years ahead. Modesto has completed its scheduled purchases to reach its targeted coverage for the 2011-2013 timeframe.

In 2009, Modesto entered into a long-term natural gas prepayment transaction through M-S-R Energy Authority. See "– Joint Powers Agency Resources – *M-S-R Energy Authority – Gas Prepay*" below.

Modesto currently uses J.P. Morgan Ventures Energy Corporation ("JPMVEC") for scheduling and balancing the natural gas requirements of its generating stations. JPMVEC also acts as the default supplier, ensuring that a source of gas will be available at a variable, index-based price. Modesto has built a portfolio of futures, swaps, and forward contracts to hedge the gas price risk related to its generating stations. New hedges are put on as contracts mature. The total fair value of Modesto's gas price swap agreements and natural gas commodity futures positions, net at February 1, 2011, was a liability of $16.6 million.

Joint Powers Agency Resources

TANC California–Oregon Transmission Project. Modesto, together with thirteen other northern California cities and districts and one rural electric cooperative, is a member, or associate member, of a California joint powers agency known as the Transmission Agency of Northern California ("TANC"). TANC, together with Redding, Western, two California water districts and PG&E (collectively, the "COTP Participants") own the California–Oregon Transmission Project ("COTP"), a 339-mile long, 1,600 MW, 500 kV transmission project between southern Oregon and central California. The COTP was placed in service on March 24, 1993, at a cost of approximately $430 million. TANC financed its interest in the COTP through the issuance of California-Oregon Transmission Project Revenue Bonds and commercial paper notes, of which approximately $421.4 million principal amount of bonds were outstanding as of February 1, 2011. See "Indebtedness" below.

In April 2008, TANC purchased the COTP transmission assets (approximately 121 MW) of Vernon Light & Power of the City of Vernon, California ("Vernon"), one of the original owners of the COTP. Modesto participated in the acquisition of an increased share of transfer capability of the COTP in connection with the acquisition from Vernon by TANC. TANC utilized a combination of cash and the issuance of commercial paper (which was subsequently refunded with bonds) to fund the acquisition of Vernon's COTP transmission assets (the

"Vernon acquisition debt"). Modesto, as well as the other acquiring TANC members, began scheduling the acquired COTP transmission transfer capability on April 8, 2008.

Pursuant to Project Agreement No. 3 for the COTP (the "TANC Agreement"), TANC has agreed to provide to Modesto and 12 other members of TANC (the "TANC Member-Participants") a participation percentage of TANC's entitlement of COTP transfer capability. In return, each TANC Member-Participant has severally agreed to pay TANC a corresponding percentage of TANC's share of the COTP construction costs, including debt service on TANC's outstanding revenue bonds and other obligations issued by TANC to finance its ownership share of the COTP. A TANC Member-Participant's obligations to make payments to TANC are not dependent upon the operation of the COTP and are not subject to reduction. Upon an unremedied default by one TANC Member-Participant in making a payment required under the TANC Agreement, the nondefaulting TANC Member-Participants are required to increase pro-rata their participation percentage by the amount of the defaulting TANC Member-Participant's entitlement share, provided that no such increase can result in a greater than 25% increase in the participation percentage of the nondefaulting TANC Member-Participants.

Effective February 1, 2009, Modesto along with the Turlock and the Sacramento Municipal Utility District ("SMUD"), entered into an agreement to utilize a share of the City of Palo Alto and City of Roseville entitlements in TANC's entitlement to COTP transfer capability for a 15-year period. Modesto will have the right to use the additional transfer capability (approximately 9 MW) as it utilizes its existing TANC entitlement to COTP transfer capability, including for the posting of its acquired transfer capability on the TANC Open Access Same-time Information System ("OASIS"). In exchange for the increase in transfer capability Modesto agreed to pay the pro rata TANC operation and maintenance and COTP debt service costs associated with the additional 9 MW (approximately 0.65% of TANC's costs).

Pursuant to the TANC Agreement (and the layoff agreement described above), Modesto is obligated to pay 21.947% of TANC's COTP operating and maintenance expenses, 21.8274% of TANC's 1990, 2002, and 2003 Bonds debt service, 23.3685% of TANC's 2009A Bonds debt service and 20.9392% of TANC's 2009B Bonds debt service. Modesto is entitled to 21.296% of TANC's share of COTP transfer capability (approximately 299 MW net of third-party layoffs of TANC) on an unconditional take-or-pay basis. Modesto's payments to TANC, including debt service on TANC's revenue bonds, constitute an operation and maintenance cost of Modesto's electric system.

Modesto uses a portion of its share of the project transfer capability of the COTP to provide transmission of capacity and energy purchased from the Big Horn Wind Energy Project, the Bonneville Power Administration ("BPA") and other generation resources. Modesto makes use of its remaining share of this transmission capacity to import firm capacity and economic energy purchases from the Pacific Northwest. Modesto also participates with other TANC Members in offering unused and unencumbered transfer capability for use by other entities in an open and efficient manner in accordance with TANC posted tariffs.

To utilize the full transfer capability of the COTP and the Intertie (described below) on a firm basis between the Pacific Northwest and California, it is necessary to coordinate the operation of all three transmission lines. The Pacific AC Intertie (the "Intertie") is a two line system which, like the COTP, connects California utilities with those in the Pacific Northwest. The Intertie lines are owned by certain of the California investor-owned utilities and Western and are operated by the ISO. Rate schedules are on file with FERC to accomplish this coordination. The three-line system comprised of the COTP and the Intertie is collectively referred to as the California-Oregon Intertie ("COI").

In December 2005, Modesto became a part of the SMUD balancing authority area within the Western sub-balancing authority area. In December 2005, the COTP was transferred to the SMUD balancing authority. Now Modesto enjoys the benefits of direct scheduling energy transactions over the COTP within the new balancing authority, free of the ISO tariff, charges, congestion and encumbrances. Modesto has maintained its existing firm transmission rights and continues to use its allocation of COTP transfer capability for firm and non-firm powers transactions as it did prior to the start up of the ISO.

The costs and operation of the COTP are impacted by various FERC proceedings. Modesto management does not believe any of these proceedings are material to its operations or its operating performance.

Tesla–Midway Transmission Service. The southern physical terminus of the COTP is near PG&E's Tesla Substation near Tracy. The COTP is connected to Western's Tracy and Olinda Substations. PG&E provides TANC and certain of its members with 300 MW of firm, bi-directional transmission service, on its transmission system between its Tesla Substation and its Midway Substation near Buttonwillow, California (the "Tesla–Midway Service") under a long-term agreement known as the South of Tesla Principles. Modesto's share of Tesla–Midway Service is 102 MW. Modesto has utilized its full allocation of Tesla–Midway transmission service for firm and non-firm power transactions. Modesto, in conjunction with Turlock, has constructed a 230 kV transmission line from Western's Tracy Substation to its service area (the "Westley/Tracy Transmission Project"), which is in operation.

Modesto has used, and anticipates continuing to use, its share of the TANC Tesla–Midway Service to provide access to power supplies located in the southwest, including the San Juan Project. See "– *M-S-R PPA Purchased Power–San Juan Project*" below.

M-S-R PPA Purchased Power–San Juan Project. As described in the forepart of this Official Statement, M-S-R PPA owns a 28.8% (approximately 146 MW) interest in the San Juan Unit No. 4 (the "M-S-R PPA San Juan Ownership Interest"). The San Juan Unit No. 4 is a coal-fired steam electric generating unit with a net generating capability of 507 MW, located in San Juan County, New Mexico, which was constructed and is operated by the Public Service Company of New Mexico ("PNM"). The San Juan Unit No. 4 is one of four generating units that together make up the San Juan Generation Station. M-S-R PPA financed the acquisition of the M-S-R PPA San Juan Ownership Interest through the issuance of revenue bonds, of which approximately $323.1 million was outstanding as of February 1, 2011.

M-S-R PPA has sold, pursuant to the Power Sales Agreement, its entitlements in the M-S-R PPA San Juan Ownership Interest to its three members in the following percentage amounts: Modesto, 50%; Santa Clara, 35% and Redding, 15%, pursuant to which each Participant, in exchange for its above-mentioned percentage purchased, is unconditionally obligated to pay its share of all of M-S-R PPA's costs associated with the M-S-R PPA San Juan Ownership Interest, including debt service on the aforementioned M-S-R PPA revenue bonds. Pursuant to the M-S-R PPA Power Sales Agreement, upon failure of any Participant to make any payment thereunder which failure constitutes a default under the M-S-R PPA Power Sales Agreement, and if such defaulting Participant's participation percentage cannot be sold at a price equal to the defaulting Participant's obligations, the participation percentage of each non-defaulting Participant automatically shall be increased for the remaining term of the M-S-R PPA Power Sales Agreement in proportion to its participation percentage; provided, however, that the sum of such increase for any non-defaulting Participant shall not exceed 25% of its original participation percentage. Modesto's payments to M-S-R PPA, including debt service on M-S-R PPA revenue bonds, constitute an operation and maintenance cost of its electric system.

Modesto uses its M-S-R PPA San Juan Ownership Interest capacity and energy in its own system or for short-term lay-offs to others based upon monthly economic dispatch considerations. M-S-R PPA obtains firm transmission to transmit to the M-S-R PPA members the capacity and energy of the M-S-R PPA San Juan Ownership Interest through firm transmission service agreements executed with the Los Angeles Department of Water and Power ("LADWP") and the Southern California Edison Company ("Edison") and via the M-S-R PPA Southwest Transmission Project (described below).

On August 1, 2008, Edison filed a rate case to change the rate design and increase the charges for a firm transmission agreement, which helps bring power generated at San Juan Unit No. 4 to loads in Northern California, including that of Modesto. This matter was set by FERC for settlement judge procedures. As a result of the FERC settlement judge proceedings, Edison filed an offer of settlement on July 1, 2009, which was approved by FERC on September 11, 2009. Under the terms of the settlement increases in the transmission service rates under the firm transmission agreement have been established through December 31, 2013. Beginning on January 1, 2014, the rates will be determined by Edison's system costs. Accordingly, it is expected that the annual costs will increase again on January 1, 2014, based on Edison's then existing system costs. On July 31, 2009, Edison filed another rate case (its fifth under the ISO regime), which does not directly impact the M-S-R PPA firm transmission agreement settled rates at this time, but will be used after January 1, 2014 to establish the rates for the M-S-R PPA firm transmission agreement. The parties have reached a settlement-in-principle as to Edison's fifth rate case, which was approved by FERC on February 11, 2010. In addition, Modesto is participating in a proceeding concerning Edison's rates for construction work-in-progress for certain transmission projects that is in settlement discussions, and if necessary, will go to hearing. Such rates would impact Edison's system costs and therefore be reflected in the rate under the M-S-R PPA firm transmission agreement. See also "Litigation – *Other Matters*" below.

In connection with the cap-and-trade program adopted by the California Air Resources Board ("CARB") pursuant to Assembly Bill 32 to reduce greenhouse gas emissions, M-S-R PPA may be required to account for carbon emissions of the San Juan Unit No. 4 and provide off-setting allowances thereto. Modesto has been participating in the Assembly Bill 32 implementation scoping processes before CARB, the California Public Utilities Commission ("CPUC") and the California Energy Commission ("CEC") in an effort to position itself to meet the State's greenhouse gas reduction targets.

Modesto has signed a set of principles through the California Municipal Utilities Association in an effort to meet the greenhouse gas reduction targets of the State of California. See "DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation – *Greenhouse Gas Emissions*" in the forepart of this Official Statement.

For additional information regarding the M-S-R PPA San Juan Ownership Interest, including certain litigation relating thereto, see "THE PROJECT" in the forepart of this Official Statement.

M-S-R PPA Southwest Transmission Project. The Southwest Transmission Project consists of M-S-R PPA's acquisition of an interest in a 500 kV alternating current transmission project between the central Arizona area and the Los Angeles basin and certain other transmission facilities and arrangements to provide for the delivery of power and energy from the M-S-R PPA San Juan Ownership Interest to the M-S-R PPA members' systems in Northern California. M-S-R PPA financed the acquisition of the Southwest Transmission Project through the issuance of revenue bonds, of which approximately $39.4 million were outstanding as of February 1, 2011. See "Indebtedness" below. Modesto is unconditionally obligated for 50% of the costs of the M-S-R PPA Southwest Transmission Project (including debt service on the aforementioned bonds), subject to certain step-up provisions in the Power Sales Agreement described herein. See "THE PROJECT – Southwest Transmission Project" in the forepart of this Official Statement for a further description of the Southwest Transmission Project.

The Southwest Transmission Project provides a path from San Juan to the Midway Substation. Transmission service from the Midway Substation to Modesto's electric system is provided by the TANC Tesla–Midway Service. See "– *Tesla–Midway Transmission Service*" above.

M-S-R PPA Purchased Power–Big Horn Wind Energy Project. In 2005, M-S-R PPA entered into a series of power purchase agreements with Iberdrola Renewables, Inc. (formerly PPM Energy, Inc.) ("Iberdrola"), certain of which agreements have been assigned to Iberdrola's subsidiary, Big Horn I, LLC, for the purchase of energy from the Big Horn wind energy project (the "Big Horn Project") located near the town of Bickleton, in Klickitat County, Washington. The 199.5 MW Big Horn Project consists of 133 1.5 MW GE wind turbines. Modesto participates in the purchase of a 12.5% share of the output from the Big Horn Project through M-S-R PPA. Modesto's share equates to approximately a 25 MW share of the project output at a cost, including delivery, of between $60 and $65 per MWh. Power deliveries commenced on October 1, 2006, and will continue through September 30, 2026. Through an amendment of the original agreements M-S-R PPA will have the right to continue to take the same output through September 30, 2031, or if the Big Horn Project is repowered M-S-R PPA will have a right of first offer to negotiate a long-term power purchase for such repowered project. Modesto uses a portion of its transfer capability of the COTP to provide for transmission of the output from the Big Horn Project from the California-Oregon border. The Big Horn Project is operated within the BPA balancing authority area. On October 1, 2009, BPA began imposing a wind integration charge of $1.29/kW-month, effective through September 2011, for the purpose of recovering its costs to provide within-hour generation balancing services for wind generators. BPA started conducting a 2012-2013 power rate case on March 3, 2010, which may result in a further increase in the wind integration charge. M-S-R PPA has entered into a series of amendments of the power purchase agreements with Iberdrola whereby M-S-R PPA will, subject to certain caps and limitations, pay the first $1.20/kW-month of any wind integration charge imposed by BPA, Iberdrola will pay the next $1.20/kW-month, and M-S-R PPA and Iberdrola will equally split any wind integration charge exceeding $2.40 per/kW-month. Through a collaborative effort between Iberdrola and M-S-R PPA, the Big Horn Wind Energy Project has obtained California Renewable Portfolio Standard ("RPS") Certification as an eligible renewable resource by the CEC. The Big Horn Project has been registered with the Western Renewable Energy Generation Information System ("WREGIS") by Iberdrola with BPA acting as the Qualified Reporting Entity. The renewable energy credits are transferred from Iberdrola, the originator, to M-S-R PPA and finally to the members of M-S-R PPA, for either retirement or wholesale sales by such members.

More recently, M-S-R PPA negotiated a 25-year agreement with Iberdrola for the purchase of the output from a 50 MW expansion of the Big Horn Project, the Big Horn II Project. Modesto is taking 65.0% of the output from the Big Horn II Project, approximately 33 MW, which commenced on November 1, 2010 at a cost between $95 and $105 per MWh. M-S-R PPA will pay the required wind integration charge and pay the cost of necessary transmission to BPA to deliver the output from the facility to a northern California market trading hub.

See "M-S-R PUBLIC POWER AGENCY – Other M-S-R Projects – *M-S-R Purchased Power–Big Horn Project*" in the forepart of this Official Statement for a further description of the Big Horn Project. See also "– Purchased Power – *Renewable Resources; Modesto Renewable Portfolio Standard*" below.

M-S-R Energy Authority – Gas Prepay. The M-S-R PPA participants have formed a joint powers authority known as the M-S-R Energy Authority ("M-S-R EA"). The M-S-R EA was created for the purpose of entering into contracts and issuing bonds to assist the M-S-R EA participants in financing the acquisition of supplies of natural gas for use in each participant's respective electrical generation stations. In 2009, Modesto participated in the M-S-R EA Gas Prepay Project. The Gas Prepay Project provides to Modesto, through a Gas Supply Agreement with M-S-R EA, for a secure and long-term supply of natural gas of 5,000 MMBtu daily or 1,831,000 MMBtu annually through September 2039. The agreement provides this supply at a discounted price below the spot market price (the PG&E Citygate index). As of February 1, 2011, bonds issued by M-S-R EA to finance Modesto's share of the Gas Prepay Project were outstanding in the principal amount of $201,035,000. M-S-R EA will bill Modesto for actual quantities of natural gas delivered each month on a "take-and-pay" basis. M-S-R EA has contracted with Citigroup Energy, Inc. ("CEI") to use the proceeds of the Gas Prepay bond issue to prepay CEI for natural gas. The obligations of CEI are guaranteed by Citigroup, and responsibility for bond repayment is non-recourse to Modesto. Moreover, any default by the other Gas Prepay Project participants, Santa Clara and Redding, is also non-recourse to Modesto.

Purchased Power

Hetch Hetchy Purchased Power. Modesto and the Public Utilities Commission of the City and County of San Francisco ("CCSF") finalized a power sale agreement during 2008, to replace a prior agreement that had been in place since 2003. Under the agreement, CCSF and Modesto maintained existing agreements incorporated as appendices and the allocation methodology for CCSF to continue to sell as available generated energy to meet Modesto's Class 1 requirements through June 2015. A new document between Modesto and CCSF outlining Modesto's allocation of Class 1 energy will be required by June 2015. Class 1 energy is limited to energy necessary for municipal and pumping loads pursuant to the Raker Act (the 1913 federal law enabling construction of Hetch Hetchy project in the national park). The cost for Class 1 energy is at a price that reimburses CCSF for developing, maintaining, and transmitting such energy to Modesto.

Western Area Power Administration (Western) Purchased Power. In 2000, Modesto entered into an agreement with Western to purchase 5 MW of power from the Central Valley Project ("CVP") annually, and when available, from 2005 through 2024. In addition, Modesto participates in Western's Exchange Program and receives additional base resource power on an as available basis. The CVP is a series of federal hydroelectric facilities in Northern California operated by the United States Bureau of Reclamation, for which Western serves as marketing agency. The new contract may also be terminated if Modesto opposes new rate changes, which Modesto has not challenged to date. Rate changes are implemented by Western at a minimum of five years and possibly more frequently. On June 10, 2008, Western initiated an informal rate making process as a precursor to a formal rate adjustment process. The formal rates process commenced in May 2010 and the initial draft proposed rate adjustment was publicized in the Federal Register on January 3, 2011. The proposed rate methodologies for the 2011-2016 timeframe have not changed from the previous methodologies and the proposed increase in rates are due to inflationary increases and additional operational costs. Modesto will be monitoring this process as the final rates are anticipated to be adopted prior to September 30, 2011.

Other Long-Term Purchases. Modesto's Electric Resource Policy and Plan, adopted in 2002, called for the addition of up to 100 MW under long-term contract for periods of between 10 and 15 years. Between

October 2003 and April 2005, Modesto executed a series of six varying contracts with Morgan Stanley Capital Group, Iberdrola (formerly PPM Energy, Inc.) and Constellation Power Source, Inc. as follows: (i) a 25 MW year round base load product (10-year contract term commencing July 1, 2006), with associated energy of 109.5 GWh for 2006, 219 GWh from 2007 through 2015, and 109.5 GWh for 2016; (ii) a 25 MW on-peak product (10-year contract term commencing in 2006 with delivery from April 1 through September 30), with associated energy of 62 GWh; (iii) a 25 MW block of power for delivery July 1 through September 30, commencing in 2006, for a 10-year term; (iv) a 25 MW block of power for delivery April 1 through September 30, commencing in 2006, for a 10-year term; (v) a 25 MW year round base load product with delivery commencing August 1, 2006 through December 31, 2010, and an associated energy of 91.8 GWh in 2006 and 219 GWh from 2007 through 2010 with AECO indexed natural gas and set heat rate of 10,346 Btu/kWh; and (vi) a 25 MW base load product block with delivery commencing July 1 through December 31 for an 8-year term from 2006 through 2014 with an associated energy of 110 GWh annually. Energy under all of the contracts except the contract described in (iii) above is delivered at the California-Oregon Border in order to utilize Modesto's COTP allocation. Energy under the contract described in (iii) above is delivered at points of delivery north of Path 15, at Westley, or the Tracy Substations and exported to the SMUD–Western balancing authority area for delivery to Modesto. The average total cost to Modesto for these resources based upon the purchased products was approximately $48-76/MWh for 2010. Due to current economic conditions, Modesto's load growth in the near term is expected to be lower than its previous recent historical growth rates. As a result, Modesto does not anticipate immediately replacing the baseload contracts described in (v) above with another baseload product. Additional baseload resources will be available upon commercial operation of the Lodi Energy Center, which is anticipated to commence in mid-2012. See "Future Power Supply Resources" below.

Renewable Resources; District Renewable Portfolio Standard. Modesto has taken numerous steps towards satisfying the RPS targets set forth in State legislation. This legislation requires the State's investor-owned utilities to receive at least 20% of their energy from renewable resources by 2010. Publicly owned utilities at this time will be allowed to meet the intent of the legislation in their RPS. See "DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation" in the forepart of this Official Statement.

In 2010, Modesto served approximately 18% of its retail energy sales from renewable energy resources.

Modesto's current renewable power purchases include output from five wind generation projects: the Big Horn Project and Big Horn II Project output purchased through M-S-R PPA (see "– Joint Powers Agency Resources – *M-S-R PPA Purchased Power–Big Horn Project*" above), the High Winds and Shiloh Wind projects and the Star Point Wind Project output purchased by Modesto from Iberdrola. In addition, future deliveries of solar energy purchased by Modesto are anticipated in 2012 from the McHenry Solar Farm Project as further described below.

In 2004, Modesto entered into a 10-year agreement with Iberdrola for the purchase of the output from 25 MW of the 162 MW High Winds Project located near Rio Vista in Solano County, California. Pursuant to the agreement, Modesto has take-or-pay rights up to a maximum of 25 MW of generation output from the facility. Prior to the implementation by the ISO of its Market Redesign and Technology Upgrade ("MRTU"), energy deliveries were firmed through a shaping confirm and scheduled through the ISO at North of Path 15 ("NP15") and exported to the SMUD–Western balancing authority area for delivery at Modesto's Westley Substation. Scheduling of this resource originally commenced on June 1, 2004 pursuant to an amendment to the original agreement that will extend to June 30, 2015. Iberdrola will provide the output of an additional 25 MW for a total of 50 MW from this project starting July 1, 2015 through June 30, 2028. Modesto pays a fixed price for this resource through May 31, 2014 and then a new price that includes an escalated component for the extension and the increased amount.

In 2006, Modesto entered into an amended 50 MW 10-year purchase agreement with Iberdrola for the annual delivery of wind energy from the 150 MW Shiloh Wind Project, located near Rio Vista in Solano County, California, for a fixed price, commencing June 1, 2006 through May 31, 2016. Modesto schedules this resource similarly to how the High Winds Project output is currently scheduled under the ISO MRTU.

Modesto has negotiated agreements that allow it to minimize the impacts of the ISO for the renewable resources described above that are situated in the jurisdiction of the ISO. The agreements allow it to take ownership of the output from the High Winds and Shiloh Wind projects. The environmental attributes associated with the wind energy generation become the property of Modesto and are accounted for through the WREGIS.

In 2009, Modesto also entered into a 20-year agreement with Iberdrola for the purchase of the output from the 98.7 MW Star Point Wind Project located in Sherman County, Oregon. Modesto began taking deliveries from this project on June 1, 2010 at a cost between $85 and $95 per MWh. Modesto will pay the required wind integration charge and pay the cost of necessary transmission to BPA to deliver the output from the facility to a northern California market trading hub.

Modesto, through an extendable one-year contract (which extends through December 31, 2011), included the output from a 750 kW digester gas powered internal combustion engine-driven generator located at the Fiscalini Dairy within Modesto's service territory. The Fiscalini Project output generated approximately 4 GWhs of CEC Certified energy in 2010. Modesto obtains all renewable energy credits and environmental attributes, which are tracked through the WREGIS for the term of the agreement. In addition, Modesto is reviewing the potential for the addition of more renewable energy from biomass and solar facilities.

Finally, in 2010 Modesto entered into a 25-year power purchase agreement with SunPower Corporation for the purchase of the output of a local 25 MW solar photovoltaic project (the "McHenry Solar Farm Project"). Modesto and the developer are in the early stages of the environmental impact assessment. At this time, the project is anticipated to commence energy production after the second quarter in 2012.

Modesto's Board of Directors has provided guidance to maintain a minimum level of procurement in accordance with Modesto's original RPS. Modesto is considering plans for future purchases of energy from renewable resources. Modesto is also participating in the WREGIS, the electronic tracking system for renewable energy certificates, that is used to ensure compliance with the State's RPS requirements.

With the inclusion of the above-described contracts, it is expected that approximately 27% and 29% of Modesto's energy portfolio will be supplied from renewable resources by 2011 and 2012, respectively.

Since the inauguration of Modesto's RPS, Modesto's Board of Directors has taken steps to ensure that the risks associated with the purchase of the output of renewable resources are minimized by: (i) first procuring renewable energy resources that are located within the State of California, (ii) obtaining assurances that counterparties will meet deliverability requirements for both energy and environmental attributes associated with the renewable resources; and (iii) examining potential legislative impacts within the regulatory framework in which Modesto operates. Modesto has also ensured competitiveness of the purchases made by benchmarking the products against various industry and CEC reports.

Other Power Purchases. As described under "Interconnections, Transmission and Distribution Facilities" below, Modesto is now part of the Western subsystem (within the SMUD balancing authority area), and Modesto schedules power purchases to meet its native load requirements through the ISO as exports to the SMUD–Western balancing authority area at NP15, entering at Modesto's Westley Substation. In addition, Modesto schedules purchases from other suppliers in the Pacific Northwest through the use of its COTP scheduling entitlement. In 2010, Modesto made short-term purchases from BPA, Citigroup Energy, PacifiCorp, Portland General Electric, Seattle City and Light, Sempra Energy Trading and Tacoma Power & Water, among others.

In 2007, Modesto worked closely with the CEC to develop ten-year energy efficiency targets in compliance with AB 2021. Modesto's adopted targets represent a significant increase over its historical program activity and a significant fraction of economic potential (approximately 33%) identified by the Rocky Mountain Institute energy efficiency study. By 2016, Modesto expects to have about 100 GWh in energy savings in energy efficiency programs. This program follows CEC staff approved energy efficiency guidelines and was approved by Modesto Board in Resolution 2007-176 on September 25, 2007.

Future Power Supply Resources

General. Modesto believes that its current resources will provide Modesto with sufficient capacity resources through 2012 and beyond. Modesto will add additional capacity resources in conformance with its short-term and long-term electric resource procurement strategy in future years. In Fiscal Year 2001, Modesto's Board of

Directors updated Modesto's Electric Resource Policy. Upon meeting the previously established goals set forth in the Electric Resource Policy, the Electric Resource Policy was again updated in 2006.

As described below, Modesto is currently undertaking projects, either independently or jointly with other agencies, which include the development of an in-area peaking power plant, the 49.6 MW Woodland 3 Project, scheduled to commence commercial operation during the second quarter of 2011, and the acquisition of 30 MW of baseload capacity and energy in the Lodi area, through its participation in the Lodi Energy Center, which is scheduled to commence commercial operation during the summer of 2012.

Woodland 3 Project. The 49.6 MW (Net) Woodland 3 Generation Project will be a peaking plant consisting of six individual 8.4 MW (Gross) Wartsila 20V34SG reciprocating engine generators, each of which can be dispatched independently. The natural gas-fired plant will provide flexible, fast starting peaking-to-intermediate generation to complement Modesto's existing portfolio of gas turbine engine generators. The new facility is expected to provide excellent reliability support for Modesto's existing fleet and will firm up the anticipated influx of new intermittent renewable wind and solar resources as the entire plant output can be brought up to full load in under ten minutes with a low minimum load point of 4 MW.

The reciprocating engine peaking plant is to be located on a 2.5-acre parcel adjacent to Modesto's existing Woodland Generation Plant on the southeast corner of Woodland Avenue and Graphics Drive. The Woodland 3 Project is being developed using an engineer/procured contracts approach. Modesto entered into an Equipment Supply and Services Contract with Wartsila, North America, Inc. in October of 2008. The Wartsila Contract scope of supply includes the six (6) engine generators and the majority of the balance of plant equipment. Modesto contracted with Burns and McDonnell Co. to provide detailed design and consulting services for the project. On March 30, 2010, Modesto awarded the General Plant Construction Contract to Haskell Corporation. Construction began in late April of 2010. Project completion is scheduled for April of 2011 and commercial operation is expected to occur by May of 2011. Modesto has estimated the total construction cost of the Woodland 3 Project, including contingency at approximately $78 million. On June 16, 2010, the Modesto Irrigation District Financing Authority issued its $60,325,000 Taxable Electric System Revenue Bonds (Capital Improvements) Series 2010A (Build America Bonds) and its $39,930,000 Electric System Revenue Bonds (Capital Improvements) Series 2010B (as defined herein collectively, the "MIDFA 2010 Bonds") on behalf of Modesto for the purpose, among others, of financing costs of the Woodland 3 Project.

Lodi Energy Center Project. Modesto is a participant in the Lodi Energy Center, which is being undertaken by the Northern California Power Agency ("NCPA"). The MIDFA 2010 Bonds were also issued for the purpose of financing Modesto's estimated share of the costs of construction of the Lodi Energy Center. The Lodi Energy Center will be a natural gas-fired, combined-cycle nominal 280 MW power generation plant to be located in the City of Lodi, California ("Lodi"). The plant is designed to be capable of operating at 296 MW (it has been permitted to operate at this level and will include the equipment necessary to operate at this level) but is expected to operate at 280 MW under the terms of the transmission interconnection agreement with the ISO and PG&E. The Lodi Energy Center has a designed net heat rate of 6,804 Btu/kWh high heat value at 94 degrees F. This heat rate is low in comparison to other natural gas-fired generating facilities, and means that the plant is expected to be very efficient and utilize less natural gas than most gas-fired plants to generate electric energy. The facility is expected to have an overall annual availability of more than 95%.

Modesto has entered into a Lodi Energy Center Power Sales Agreement (the "LEC Power Sales Agreement"), by and among NCPA, Modesto, the California cities of Azusa, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Santa Clara and Ukiah, Plumas-Sierra Rural Electric Cooperative, the Power and Water Resources Pooling Authority, the San Francisco Bay Area Rapid Transit District and the California Department of Water Resources (such entities other than NCPA, the "LEC Project Participants"), pursuant to which Modesto has purchased from NCPA, on the terms and conditions set forth in the LEC Power Sales Agreement, a 10.7143% generation entitlement share of the capacity and energy of the Lodi Energy Center and is responsible for the payment of 10.7143% of the costs of construction of the Lodi Energy Center.

Construction of the Lodi Energy Center commenced in August 2010 and commercial operation is expected to occur in the summer of 2012. The estimated costs of construction of the Lodi Energy Center are approximately $375 million.

The Lodi Energy Center will be operated and maintained by NCPA under the general direction of the LEC Project Participants pursuant to the LEC Power Sales Agreement and the Lodi Energy Center Project Management and Operations Agreement (the "LEC PMOA"), among NCPA and the LEC Project Participants, relating to the Lodi Energy Center project.

In addition to its obligation to provide its share of the costs of construction of the Lodi Energy Center, under the LEC Power Sales Agreement, Modesto (and each of the other LEC Project Participants) is also obligated to provide for its share of the costs of construction of all capital improvements to the Lodi Energy Center and to pay its share of the total monthly power costs, including, among other things, an operating cost component (for all operation and maintenance expenses of the Lodi Energy Center), a fuel cost component (for all fuel costs of the Lodi Energy Center) (unless an alternate billing procedure is included in the LEC PMOA as provided in the LEC Power Sales Agreement, in which case each LEC Project Participant will be billed for fuel costs as provided in the LEC PMOA) and a non-financed capital cost component (for all costs of construction of capital improvements to the Lodi Energy Center which are to be paid by contributions in aid of construction) based on its respective generation entitlement percentage. In the event of a payment default by another LEC Project Participant which causes a deficiency in the amount available to pay all operation and maintenance expenses of the Lodi Energy Center project then due, Modesto will be obligated to increase its payments with respect to the operating and maintenance expenses of the Lodi Energy Center by its pro rata share (based on its generation entitlement share) of the amount of the deficiency. Modesto is obligated to make all payments required to be made by it under the LEC Power Sales Agreement whether or not the Lodi Energy Center or any part thereof is developed, constructed, is operable, operating or retired, and whether or not any capacity or energy is made available or furnished to Modesto at all times or at all, and notwithstanding the suspension, interruption, interference, reduction or curtailment of the Lodi Energy Center output in whole or in part for any reason whatsoever. Modesto's payment obligations under the LEC Power Sales Agreement (other than its obligation to make capital contributions or contributions in aid of construction) constitute maintenance and operation costs of Modesto's electric system.

Wholesale Power

Modesto participates in the wholesale energy markets as indicated in the table entitled "Power Supply Resources" above. Modesto's wholesale power activities are backed up by its generation and transmission assets. The objectives of the wholesale power program are to capture the maximum value of these assets and to minimize the net cost of purchased power. Over the last three Fiscal Years (2008 through 2010), wholesale sales generated approximately $26.5 million in gross revenue. During 2010, there was a decrease in wholesale power revenue compared to 2009 due to lower wholesale energy sales as Modesto procured less additional resources to meet Modesto's native load and decreased demand.

Risk Management Program

Modesto's Board of Directors maintains a Risk Management Program (the "RMP"), most recently revised in February 2010, which provides controls for the operational, price and credit risks of Modesto's power trading and natural gas acquisition operations. The policy document addresses roles and responsibilities, authorized and prohibited transactions, exposure limits, transaction and market data collection procedures, and reporting requirements. Day-to-day risk management activities are carried out by a Risk Management Oversight Committee and a Pricing/Risk Management Administrator. Modesto is actively engaged in identifying opportunities and negotiating contracts for electricity and natural gas. See "Power Supply Resources – Generating Facilities – *Modesto's Natural Gas Acquisition Activities*" above. Such contracts may be entered into by Modesto in the future. Under the RMP, such contracts with a term of less than four years may be entered into by District staff whereas longer term contracts must be specifically approved by Modesto's Board of Directors.

Interconnections, Transmission and Distribution Facilities

On December 1, 2005, Modesto joined the SMUD–Western balancing authority area. A balancing authority performs a balancing function in which customer usage and resources are matched on a moment-by-moment basis. In addition, a balancing authority operates the transmission system, monitoring power lines to ensure they are operated within the reliable limits of the system in addition to coordinating the operation with neighboring balancing authorities.

Prior to joining the SMUD–Western Balancing authority area, Modesto operated within the balancing authority area of the ISO.

Modesto's electric system is directly interconnected with the systems of Turlock (two 69 kV lines and two 230 kV lines), CCSF (four 115 kV lines) and PG&E (two 230 kV lines). In addition, there are two lines connecting Modesto to Western and the COTP project (two 230 kV lines) and two lines connecting Western to Modesto's Mountain House load (two 69 kV lines). In May 2008, Modesto completed the Westley/Rosemore Transmission Project, which includes two 230 kV transmission lines and two 230/69 kV transformers which increased Modesto's import capability by 295 MW. The Westley/Rosemore Transmission Project's two lines extend approximately 17 miles, connecting the Westley Switching Station eastward to the western edge of Modesto's service territory, thereby increasing the import capability from the west side of the Central Valley towards Modesto's load on the east side of the Central Valley. Modesto is also a member of the Western Electricity Coordinating Council (the "WECC").

Facilities owned by Modesto for the distribution of electric power include approximately 344 miles of transmission lines, approximately 1,744 miles of distribution lines and 36 substations. Modesto's system experiences approximately 40 minutes of outage time per customer per year. This compares favorably with other utilities in California with reliability factors ranging from 1 to 2.5 hours outage per customer per year.

Employees

Modesto had, as of February 1, 2011, 418 full time employees. Of Modesto's 418 full-time employees, it is estimated that 379 are represented by the International Brotherhood of Electrical Workers ("IBEW"). The contract with IBEW expired on November 30, 2008. Modesto is continuing to negotiate a successor contract with the IBEW. Modesto's management and employee organizations have had successful contract negotiations in prior years and there have been no work interruptions in Modesto's history.

Modesto maintains two retirement plans and a retiree medical benefits plan for its eligible employees. The Basic Retirement Plan is a single-employer noncontributory defined benefit pension plan for eligible employees. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Modesto makes contributions to the Basic Retirement Plan at an actuarially determined rate. The annual required contribution is determined in accordance with the projected unit credit actuarial cost method. The actuarial value of assets is based on fair market valuations prepared by an appraisal service with differences between market value and the assumed rate of return recognized over three years (three -year smoothing). The unfunded liability is amortized over a 30-year period using the "rolling level-dollar amortization" method. The amortization period is still open. The Board of Directors has established, and may amend, the contribution requirements for plan members and the District set forth in the terms of the plan. The funding policy currently established requires Modesto to contribute an amount set forth in the Recommendation Regarding Total Contributions presented in the plan actuary's most recent actuarial report. The annual required contribution set forth in the Recommendation Regarding Total Contributions presented in the actuarial report was $10,440,020 for 2010, which amount was contributed. The actuarial value of assets as of January 1, 2010 (the most recent actuarial information available) was $143,288,154 and the actuarial accrued liability was $203,314,785, resulting in a total unfunded actuarial accrued liability for Modesto for the Basic Retirement Plan of $60,026,631 as of January 1, 2010 and a funded ratio of 70.5%. Eligible employees also participate in Modesto's Supplemental Plan, which is a defined contribution plan and serves as a partial or full replacement of social security for participants, depending on the date of employment. Participants contribute 5% of their compensation on a pre-tax basis which contributions Modesto wholly matches. Modesto's contribution to the Supplemental Plan for 2010 was $1,670,551 and is budgeted to be $1,833,600 for 2011.

Modesto also provides health care benefits to qualified retirees and their spouses ("OPEB"). The Retiree Health Program is a single-employer defined benefit healthcare plan. Modesto contributes the full cost of coverage for employees who retired before 1992; employees who retired in 1992 and thereafter pay a portion of the monthly premium for eligible dependent coverage and Modesto pays the remainder of the cost of the plan. Covered retirees are also responsible for personal deductibles and co-payments. Modesto pays for post-retirement dental and vision care for retirees only to age 65. Modesto contributes to the Retiree Health Program at an actuarially determined rate. The annual required contribution is determined in accordance with the projected unit credit actuarial cost method. The actuarial value of assets is based on fair market valuations prepared by an appraisal service with differences between market value and the assumed rate of return recognized over three years (three-year smoothing). Modesto's annual OPEB expense is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over 30 years as a percentage of rising covered payroll. Modesto's annual OPEB cost and percentage contributed for 2010 was $6,544,909 (100.58%). Modesto's budgeted OPEB contribution for 2011 is $6,547,000. The actuarial value of assets as of January 1, 2009 (the most recent actuarial information available) was $8,887,000 and the actuarial accrued liability was $74,688,000, resulting in a total unfunded actuarial accrued liability for Modesto for the Retiree Health Program of $65,801,000 as of January 1, 2009 and a funded ratio of 11.90%.

Rates and Charges

Modesto's Board of Directors has full and independent power to establish revenue levels and rate schedules for all electric service provided by Modesto. Modesto is not subject to rate regulation by any State or federal regulatory body, and is empowered to set rates effective at any time.

AB 1890 requires that Modesto spend approximately 2.85% of annual revenue requirements (approximately $8.7 million in 2010) on public benefit programs. Modesto is recovering its public benefit revenue as part of its normal rates.

On November 23, 2010, Modesto's Board of Directors approved a rate increase comprised of a 2% base rate increase and a Green Energy Surcharge set initially to $0.0063/kWh for a total increase of 7%. The Green Energy Surcharge will be trued up annually to reflect the above market cost component of renewable energy. Both increases were effective on January 1, 2011. The Board is expected to consider implementation of additional surcharges (e.g. greenhouse gas, debt reduction) in 2011.

The following table presents a history of Modesto's rate changes since January 1, 2006:

MODESTO IRRIGATION DISTRICT
RATE CHANGES

	Percent Change		
Date	Residential	Commercial	Industrial
January 1, 2011	7.00[(1)]	7.00[(1)]	7.00[(1)]
February 1, 2010	7.00	7.00	7.00
June 1, 2009	2.00	1.50	2.30
January 1, 2009	7.00	5.50-7.00	8.00
May 1, 2008	3.25	2.50	--
January 1, 2008	7.00	6.00	5.00-20.00%
January 1, 2007	2.00	2.00	5.00
January 10, 2006	9.00	9.00	10.00

(1) Approximately 70% of the total rate change represents a Green Energy Surcharge which will be subject to increase or decrease in each year as it will be trued up annually to reflect the incremental costs associated with renewable energy resources.

Source: Modesto Irrigation District.

As reflected in the preceding table, Modesto has implemented a number of rate increases over the last five years in response to higher energy costs, renewables mandates and other increased operating expenses. See "Discussion of District Actions in Response to Changing Energy Market Conditions" below.

Modesto offers an economic development discount contract option and a public agency discount contract option. Modesto previously offered contract rate options for large industrial customers (over 1 MW with high load factors). As of January 1, 2011, industrial customers with loads over 1 MW are served on Modesto's standard applicable electric rate schedule.

Modesto currently offers time of use rates only to customers with loads greater than one megawatt and an optional rate for those greater than 500 kW. After installation and deployment of Modesto's Advanced Metering Infrastructure Project (which was completed in 2010), Modesto intends to implement time of use rates for all residential, commercial and industrial customers. A pilot time of use rate is expected to be presented to Modesto's Board of Directors for consideration in 2011.

In 1996, as a part of the efforts to partially deregulate the electric energy market in California, Assembly Bill 1890 ("AB 1890") was enacted, which, together with decisions of the CPUC, provided the framework for the restructuring of the electric industry in the State. Pursuant to AB 1890, the CPUC began implementation of a direct access program under which all customers of the investor-owned utilities under its jurisdiction would over time have the option to choose from among competing suppliers of electric power. Although AB 1890 applied primarily to the California investor-owned utilities, municipal utilities were encouraged to participate in the competitive framework by gradually providing open access to competitive energy providers. On March 12, 1996, Modesto's Board of Directors adopted a policy statement providing that Modesto would develop a direct access program in which Modesto's customers would have options comparable to the direct access program implemented by the CPUC and to be implemented in a time frame consistent with the CPUC program.

Following the dysfunction in the market and the energy crisis in 2000 and 2001, Assembly Bill 1X ("AB 1X") was enacted to authorize the State to begin procuring power for the retail customers of the investor-owned utilities. AB 1X also required the CPUC to suspend the right of retail customers to purchase electricity from suppliers other than the State Department of Water Resources and the investor-owned utilities. Pursuant to AB 1X, on March 21, 2002, the CPUC suspended direct access and customer choice programs for the retail customers of the California investor-owned utilities. However, in October 2009, California Senate Bill 695 ("SB 695") was signed into law, which deletes the existing suspension of direct access transactions for investor-owned utilities and instead requires the CPUC to authorize direct access transactions for nonresidential end-use customers subject to a phase-in schedule of not less than three years and not more than five years, and subject to an annual maximum allowable total kilowatt hour limit established for each investor-owned utility. On March 11, 2010, the CPUC approved a decision to implement the provisions of SB 695, setting the gigawatt direct access load limits for each of the three California investor-owned utilities and providing for a four year phase-in schedule beginning April 11, 2010. Modesto has received at least one inquiry from a large customer as to whether Modesto may in the future offer a direct access option to its customers. Modesto is evaluating the potential impacts of the implementation of a direct access program in the future and has retained a rate consultant to assist in developing a direct access tariff. It is expected that in connection with any future direct access program, Modesto would levy a charge designed to recover from any departing loads the costs incurred by Modesto to serve the departing customer.

Modesto recognizes an estimate of uncollectible accounts for its customer accounts receivable related to electric service based upon its historical experience with collections. As of December 31, 2010, Modesto maintained an allowance for doubtful accounts for its retail customers for electric services of $3.4 million. For its wholesale power receivables, Modesto maintained an allowance for doubtful accounts at December 31, 2010 of $172,000. Modesto's net expense relating to doubtful accounts for all accounts is included in the statement of revenues, expenses and changes in net assets in its audited financial statements as an offset to operating revenues.

As has been reported in the press, the Central Valley of California, which includes Modesto's service area, has been particularly affected by current weak economic conditions. As of December 2010, the State of California Employment Development Department reported that the unemployment rate in the Modesto Metropolitan Statistical Area (Stanislaus County) was 17.6%, compared to an unadjusted unemployment rate of 12.3% for California and 9.4% for the nation during the same period. According to Construction Industry Research Board data, total building permit valuations for the County of Stanislaus declined almost 67.4% (from $653.4 million to $212.9 million) from 2007 to 2010. As a result of these economic conditions, Modesto has recently experienced a decline in its rate of load growth, a slowdown in the general business activity in its service area and an increase in the amount of delinquent accounts.

Comparison of Selected Monthly Electric Bills

Modesto's rates continue to be significantly below PG&E's rates (for other than baseline (subsidized) residential service), and roughly comparable to other municipal utilities. The following table shows a comparison of selected monthly electric bills for regional utilities of as of February 1, 2011.

COMPARISON OF SELECTED MONTHLY ELECTRIC BILLS
(As of February 1, 2011)

	Residential	
	850 kWh	1,500 kWh
	Average Monthly	Average Monthly
PG&E	$153.50	$398.41
Modesto Irrigation District	149.03	258.89
Turlock	118.05	212.10
Palo Alto	111.13	224.22
SMUD	109.12	228.46
Redding	113.82	194.35
Silicon Valley Power	88.10	156.32

	Commercial and Industrial	
	150 kW + 60,000 kWh	1,200 kW + 650,000 kWh
	Average Monthly	Average Monthly
PG&E	$8,664.83	$73,599.80
Redding	7,876.63	70,933.50
Modesto Irrigation District	7,690.88	70,806.19
Palo Alto	7,225.20	67,111.25
SMUD	6,822.76	69,457.33
Silicon Valley Power	6,787.30	69,930.92
Turlock	6,701.19	63,641.07

Notes:
Excludes $0.0002/kWh state surcharge and taxes, if any.
Industrial rates calculated are at secondary voltage service.
Industrial rates are calculated using non-contract rate schedules.
Differences in time-of-use periods and rate adjustments make comparisons more difficult.

Source: Modesto Irrigation District.

Major Customers

The ten largest customers of Modesto's electric system for the twelve months ended December 31, 2010 accounted for 23.3% of total kWh sales and approximately 16.3% of total revenues for such period. The largest customer accounted for 11.3% of total kWh sales and approximately 6.6% of total revenues. No other customer accounted for more than 2.3% of total kWh sales or more than 1.7% of total revenues. The ten largest customers of Modesto's electric system, in terms of GWh usage, for the twelve months ended December 31, 2010 are shown in the following table. See "Rates and Charges."

MODESTO IRRIGATION DISTRICT
LARGEST CUSTOMERS
(as of December 31, 2010)

Name	Business	GWh Usage
E & J Gallo Winery	Wine	275.7
Foster Farms	Dairy products	55.6
City of Modesto	Municipal Government	41.6
Con Agra Grocery Products	Food Processing	39.2
Memorial Hospital	Medical	38.3
Frito Lay Inc.	Snack Food Processing	25.2
Modesto City Schools	Education	24.3
Save Mart Supermarkets	Supermarkets	22.5
Silgan Containers Corp.	Metal Can Manufacturing	22.5
Doctor's Medical Center	Medical	21.8
		566.6

Source: Modesto Irrigation District.

Customers, Energy Sales, Billed Revenues and Demand

Modesto's number of customers, kWh sales and billed revenues derived from sales, by classification of service, as well as peak demand during the past five calendar years, are listed below.

MODESTO IRRIGATION DISTRICT
CUSTOMERS, SALES, BILLED REVENUES AND DEMAND

	Year Ended December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
Number of Customers:					
Residential	93,372	91,360	91,598	92,160	93,583
Commercial	12,671	12,511	12,279	12,065	12,037
Industrial	188	210	144	144	155
Other	6,135	6,443	6,886	7,010	7,286
Total	112,366	110,524	110,907	111,379	113,061
Kilowatt-Hour Sales (000)[1]:					
Residential	914,665	881,087[2]	896,528	893,956	848,240
Commercial	754,447	757,247	758,921	726,854	714,120
Industrial	801,578	819,968	842,303	786,935	752,103
Other	94,540	107,704	121,735	120,268	114,989
Total	2,565,230	2,566,006	2,619,487	2,528,014	2,429,451
Revenues from Sale of Energy:					
Residential	$111,989,000	$110,603,000	$122,397,000	$132,690,000	$134,886,000
Commercial	76,020,000	77,498,000	83,887,000	87,902,000	90,977,000
Industrial	52,706,000	58,262,000	64,344,000	66,503,000	67,666,000
Other	9,842,000	10,896,000	13,085,000	12,868,000	14,157,000
Total	$250,557,000	$257,259,000	$283,713,000	$299,963,000	$307,686,000
Peak Demand (MW)	697	675	650	620	641

(1) After transmission and distribution line losses.
(2) The decrease in kWh sales for the residential customer class in 2007 was primarily due to the lower temperatures and reduced consumption for cooling. In July 2006 there was a period of over ten days where temperatures in Modesto's service territory exceeded 100 degrees, with several consecutive days over 110 degrees. 2007 was a cooler than normal year.

Source: Modesto Irrigation District.

Capital Requirements

Modesto expects capital requirements for the current and next four years to aggregate approximately $166.4 million. The capital requirements are for the expansion of distribution facilities and other generation facility improvements and District improvements. It is expected that these requirements will be funded from Modesto's revenues and from future financings. Approximately $108.0 million of such capital requirements were financed from the proceeds of the MIDFA 2010 Bonds (see "Future Power Supply Resources" above) and the additional capital costs through 2011 have been funded from Modesto's Series 2009 Certificates.

In addition to the foregoing capital requirements, Modesto is constructing an expansion of Modesto's domestic water supply project, which supplies water to the City of Modesto. The expansion is expected to be completed in the first quarter of 2012, at an estimated cost of such expansion of approximately [$77.25] million. **[cost estimate update to come]** The costs of such expansion has been financed through domestic water installment purchase contracts similar to Modesto's existing Domestic Water Contracts. See "Indebtedness" below.

Indebtedness

As of February 1, 2011, Modesto had outstanding $706.6 million principal amount payable under lease agreements and installment purchase contracts relating to certificates of participation (including accreted value of capital appreciation certificates of participation as of such date) and MIDFA 2010 Bonds, which lease agreements and installment purchase contracts payable from electric system revenues of Modesto after payment of maintenance and operation costs of the electric system, including payments to be made by Modesto under the Power Sales Agreement.

As of February 1, 2011, Modesto had outstanding approximately $153.6 million in revenue obligations ("Water Obligations") which were issued to finance a water treatment plant used to treat water owned by Modesto and sold to the City of Modesto. The Water Obligations are payable from municipal water services charges to be paid by the City of Modesto for the treatment and use of potable water in its municipal water system. Modesto has covenanted, however, that in the event treatment and delivery revenues received from the City of Modesto are insufficient to pay in full any amount then due on the Water Obligations, due to the suspension of the City of Modesto's obligation to pay or otherwise, an authorized District representative shall submit to the Board of Directors of Modesto a special budget item requesting a special appropriation from the Board of Directors of Modesto of the amount of such insufficiency; provided, however, the Board of Directors of Modesto shall have absolute discretion in determining whether such a special appropriation shall be made, and a determination not to make a special appropriation shall not in and of itself constitute an event of default under the Water Obligations.

As previously discussed, Modesto participates in certain joint powers agencies, including TANC and M-S-R PPA, which have issued indebtedness to finance the costs of certain projects on behalf of their respective project participants. Obligations of Modesto under its agreements with respect to TANC and M-S-R PPA, including obligations for the payment of debt service costs on indebtedness issued by such joint powers agencies, constitute maintenance and operation costs of the electric system. Agreements with TANC and M-S-R PPA are on a "take-or-pay" basis, which requires payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. In addition, these agreements contain "step-up" provisions obligating Modesto to pay a share of the obligations of a defaulting participant. As described herein, Modesto also participates in M-S-R EA and has certain payment obligation in connection therewith which constitute maintenance and operation costs of the electric system. However, Modesto's payment obligation to M-S-R EA is with respect to actual quantity of natural gas delivered each month on a take-and-pay (rather than take-or-pay) basis. Responsibility for bond repayment is non-recourse to Modesto. See "Power Supply Resources – Joint Powers Agency Resources – *M-S-R Energy Authority – Gas Prepay*" above. In addition, as described herein, Modesto will have certain payment obligations under the NCPA LEC Power Sales in connection with the Lodi Energy Center Project which will constitute maintenance and operation costs of the electric system. However, Modesto will have no obligation with respect to debt service costs on bonds issued by NCPA on behalf of the other LEC Project Participants to finance their respective shares of the construction costs of the Lodi Energy Center. See "Future Power Supply Resources – *Lodi Energy Center Project*" above.

Modesto's participation and share of debt service obligation (without giving effect to any "step-up" provisions) for the TANC and M-S-R PPA projects in which it participates are shown in the following table.

MODESTO IRRIGATION DISTRICT
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
(Dollar Amounts in Millions)
(as of February 1, 2011)

	Outstanding Debt	District Participation(1)	District Share of Outstanding Debt
M-S-R PPA			
San Juan Unit No. 4	$ 323.1	50.00%	$161.6
Southwest Transmission Project	39.4	50.00	19.7
TANC			
COTP Bonds	421.4	21.94 (2)	92.5
TOTAL	$783.9		$273.8

(1) Participation based on actual debt service obligation. Participation obligation is subject to increase upon default of another project participant. Such increase shall not exceed, without the written consent of a non-defaulting participant, an accumulated maximum of 25% of such non-defaulting participant's original participation.

(2) Varies from 20.94-23.37% of each series. See "Power Supply Resources – Joint Powers Agency Resources – *TANC California-Oregon Transmission Project*" above.

Source: Modesto Irrigation District.

For the year ending December 31, 2010, Modesto's obligations for debt service on its joint powers agency obligations aggregated approximately $23.4 million. Debt service on joint powers agency obligations is expected to increase to a high of approximately $34.0 million in calendar year 2021, but is expected to decline to approximately $6.3 million in calendar year 2024 and thereafter. This projection assumes no future debt issuances, and that the interest rate on hedged (through interest rate swap agreements) variable rate joint powers agency debt obligations is calculated at the associated fixed swap rates. As of December 31, 2010, approximately 35.3% of the joint powers agency obligation debt was hedged variable rate debt. Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at a maximum rate substantially in excess of the current interest rates on such obligations. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity agreements may result in the acceleration of scheduled payment of the principal of such variable rate joint powers agency obligations. As noted above, in connection with such variable rate joint powers agency obligations, the respective joint powers agency has entered into interest rate swap agreements relating thereto. There is no guarantee that the floating rate payable to the respective joint powers agency pursuant to each of the interest rate swap agreements relating thereto will match the variable interest rate on the associated variable rate joint powers agency debt obligations to which the respective interest rate swap agreement relates at all times or at any time. Under certain circumstances, the swap providers may be obligated to make payments to the applicable joint powers agency under their respective interest rate swap agreement that is less than the interest due on the associated variable rate joint powers agency debt obligations to which such interest rate swap agreement relates. In such event, such insufficiency will be payable as a debt service obligation from the obligated joint powers agency members (a corresponding amount of which proportionate to its debt service obligations to such joint powers agency could be due from Modesto). In addition, under certain circumstances, each of the swap agreements is subject to early termination, in which event the joint powers agency could be obligated to make a substantial payment to the applicable swap provider (a corresponding amount of which proportionate to its debt service obligations to such joint powers agency could be due from Modesto).

Service Area

Modesto's location is the center of a highly productive agricultural area. The availability of low-cost power, modern sewage treatment and disposal facilities, a good supply of water, reasonably priced developable land and excellent transportation facilities have been important factors in the development of a sound and growing industrial base in Modesto's service territory. Approximately 300 industrial plants are located in the area in and surrounding the City of Modesto. There are approximately 4,200 total net acres of industrially zoned lands within Modesto's urban area.

As the seat of county government, the City of Modesto also has substantial government employment, serving as a solid base of year-round payrolls. In 2010, the principal non-industrial employers in the Modesto area were Stanislaus County (4,764 employees countywide), Modesto City Schools (3,113), Memorial Medical Center (2,682), Modesto Junior College (1,643) and Doctors Medical Center (1,984).

The largest employers in Modesto's service area are shown in the following table:

2010 Largest Employers

Name of Employer	Employees	Type of Business
County of Stanislaus	4,764	Government
E & J Gallo Winery	3,308	Winery
Modesto City Schools	3,113	Education
Memorial Medical Center	2,682	Healthcare
Modesto Junior College	1,643	Education
Seneca	2,100	Fruit Products
Doctors Medical Center	1,984	Healthcare
Del Monte Foods	1,700	Fruit Products
Stanislaus Food Products	1,500	Vegetable Processing

Source: City of Modesto Economic Development.

Modesto forms part of the Modesto Metropolitan Area Labor Market (Stanislaus County) reported on periodically by the State Department of Employment Development. As of 2010, this labor market had a total civilian employment of 196,000. Approximately 15.8% of all wage and salary workers in the Modesto Metropolitan Area Labor Market are governmental employees. The largest category of wage and salary employment is trade, transportation and utilities. The next largest major categories of wage and salary employment (excluding government) are manufacturing, and educational and health services.

According to the California Employment Development Department, the Modesto Metropolitan Area Labor Market (Stanislaus County) had an unemployment rate of 17.4% for the year 2010.

The table below summarizes labor force and wage and salary employment in the County of Stanislaus during the 2006-2010 period.

LABOR FORCE AND EMPLOYMENT IN STANISLAUS COUNTY[(1)]

	2006	2007	2008	2009	2010
Civilian Labor Force[(2)]	228,000	231,300	235,000	236,100	237,300
Employment	209,800	210,900	208,800	198,300	196,000
Unemployment	18,200	20,300	26,200	37,900	41,300
Unemployment Rate	8.0%	8.8%	11.1%	16.0%	17.4%
Wage and Salary Employment[(3)]:					
Farm	12,900	12,800	13,400	13,200	13,300
Natural Resources, Mining and Construction	13,200	11,400	9,300	7,000	5,900
Manufacturing	22,200	22,700	22,700	20,800	21,000
Trade, Transportation and Utilities	33,600	33,800	32,800	31,000	31,500
Information Services	2,400	2,300	1,900	1,300	1,200
Financial Activities	6,300	6,200	6,000	5,700	5,500
Professional and Business Services	14,800	14,900	14,400	13,100	12,700
Educational and Health Services	19,900	21,100	21,600	22,100	22,900
Leisure and Hospitality	15,300	15,400	15,400	14,700	14,500
Other Services	5,900	6,000	5,800	5,300	5,000
Government	26,300	26,300	26,700	25,800	25,000
Total	172,800	172,900	170,000	160,000	158,500

(1) Columns may not add to totals due to independent rounding.
(2) Based on place of residence.
(3) Based on place of work.
Source: State Department of Employment Development.

Population

Modesto's service area includes most of the City of Modesto, which is the county seat and the largest city in the County of Stanislaus, the City of Waterford, the unincorporated communities of Empire and Salida and intervening county lands and parts of Escalon, Oakdale, Ripon, and Riverbank. In addition, since January 1, 2001, Modesto's exclusive service area has included the Mountain House Community Services District in western San Joaquin County. Mountain House Community Services District is a new master-planned community of approximately 7.5 square miles which is expected to include approximately 44,000 residents (16,000 homes) at ultimate build-out, which is projected to occur over the next 20 years. Modesto currently serves approximately 3,500 customer accounts in the Mountain House Community Services District.

CITY OF MODESTO AND STANISLAUS COUNTY POPULATION
(1970, 1980, 1990, 2000 as of April 1; 2006-2010 as of January 1)

	City of Modesto		Stanislaus County	
Year	Number	Annualized Percent Change Over Interval	Number	Annualized Percent Change Over Interval
1970	61,712	–	194,506	–
1980	106,963	42.31%	265,900	26.85%
1990	164,746	35.07	370,522	28.24
2000	188,861	12.77	446,997	17.11
2006	206,993	8.76	511,617	12.63
2007	207,700	0.34	517,837	1.20
2008	208,497	0.38	522,313	0.86
2009	209,574	0.51	525,090	0.53
2010	211,536	0.93	530,584	1.04

Source: California State Department of Finance.

Transportation and Educational Facilities

Modesto is traversed by three State highways. Interstate 5, with which one of these State highways connects, passes approximately 20 miles to the west of the City of Modesto. Modesto is served by truck and bus lines. Rail service to Modesto is provided by Union Pacific and Burlington Northern Santa Fe railroads. The Modesto City-County Airport has daily scheduled commuter service to San Francisco. The deepwater port of Stockton, California, located approximately 34 miles from the City of Modesto, provides shipping to coastal and overseas markets.

There are 27 public elementary schools, 3 junior high schools and 7 high schools within the City of Modesto, plus a number of private institutions of learning. Higher education is provided by Modesto Junior College and California State University, Stanislaus, which offers both undergraduate and graduate degrees.

Litigation

General. There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining Modesto in the execution or delivery of, or in any way contesting or affecting the validity of any proceedings of Modesto taken with respect to the Power Sales Agreement related to Modesto.

To the best knowledge of Modesto, there is no litigation pending or threatened, questioning the corporate existence of Modesto or the title of the officers of Modesto to their respective offices. There is no litigation pending, or to the knowledge of Modesto, threatened, questioning or affecting in any material respect any of the financial information with respect to Modesto contained in this Official Statement.

CPUC Cost Responsibility Surcharge. On July 10, 2003 (as later modified and refined by decisions issued on August 21, 2003, November 19, 2004, December 16, 2004 and July 21, 2005), the CPUC adopted a decision that would impose on certain municipal utility customers a "cost responsibility surcharge" for a share of the costs incurred by the California Department of Water Resources ("CDWR") and the California IOUs during the energy crisis. The cost responsibility surcharge is comprised of several components, including a CDWR bond charge, a CDWR power charge and a competition transition charge ("CTC"). The surcharge (similar to the surcharge mechanism imposed on certain direct access customers) is applied on "municipal departing load" customers (i.e., customers in the service territories of such IOUs either that took bundled electric service from an IOU on or after February 1, 2001 but subsequently departed to be served by a municipal utility, or that took service from a municipal utility in the first instance). As previously noted, Modesto has provided electric service within a portion of a 400 square mile area designated by State law as Modesto's non-exclusive service territory, which area is also within the service territory of PG&E. The CPUC has established exemptions to certain components of the cost responsibility surcharge. Transferred load served by Modesto up to an amount included in prior forecasts by PG&E of load expected to transfer to Modesto (190,220 MWh annually) is exempt from certain components of the cost responsibility surcharge (but not the CTC or CDWR bond charge). New load served by Modesto is likewise exempt from certain components of the cost responsibility surcharge (but not the CDWR bond charge). The CPUC authorized PG&E in 2007 to begin billing Modesto's customers for the surcharge. To the extent the remaining components of the cost responsibility surcharge are imposed on customers served by Modesto, the surcharge will lessen the difference between Modesto's rates and those charged by PG&E, and, in certain limited cases, eliminate any rate benefit from Modesto electric service. Modesto is unable to assess the impact the current and/or proposed new surcharges may have on its ability to attract new customers. As a response to the CPUC authorizing PG&E to impose charges on customers of Modesto, Modesto adopted its Schedule Investment Recovery Charge (IRC). Under Schedule IRC, customers of Modesto who depart to take service from another provider will be obligated to pay Modesto for the costs incurred by Modesto to serve the departing customer.

State and Federal Investigations; Claims of Overcharging. State and federal authorities are conducting investigations and other proceedings concerning various aspects of the California energy crisis. These include, for example, investigations by FERC into alleged overcharging for the sale of electricity in the ISO and PX spot markets for the period October 2, 2000 through June 20, 2001 (the "Refund Cases") and alleged manipulation of the electricity market (the "Gaming Cases"). Modesto has cooperated in these investigations and has provided numerous documents in response to requests for information regarding its activities during the California energy crisis. Based upon FERC staff's recommendation, Modesto reached settlements with FERC as to the Gaming Cases, whereby Modesto settled all issues by making a $14,303 payment to FERC, with no admission of guilt by Modesto. Modesto also settled a case regarding alleged partnerships to engage in gaming by making a $60,000 payment to FERC, with no admission of guilt by Modesto. Modesto maintains that all of its transactions were done in accordance with laws, regulations, tariffs, and reliability practices, were materially different than the transactions that FERC and others found to be unlawful, and in no way represented gaming. Appeals by the State of California and others regarding individual settlements in the Gaming Cases could adversely affect Modesto, although the settlement involving alleged partnerships has not received substantive challenge. On November 14, 2008, FERC denied rehearing as to the challenges to these settlements, and those orders have been appealed to the U.S. Court of Appeal, Ninth Circuit. The Court consolidated the appeal with many others that have been filed with regard to similar settlements. The consolidated appeals are currently stayed.

FERC also initiated two proceedings concerning the market events in California in 2000 and 2001 that are currently dormant and/or inactive. One involved initiation of a proceeding on the "Investigation of Anomalous Bidding Behavior and Practices in the Western Markets," where FERC sought to determine whether bids in excess of $250/MWh for the period May 1, 2000 to October 2, 2000 are unjust and unreasonable. That investigation was dismissed as to Modesto. Aspects of FERC's inquiry, including the dismissal of Modesto, have been appealed to the Ninth Circuit Court of Appeals by parties seeking greater remedies from the 2000-2001 timeframe. Another inquiry involved potential physical withholding by generators selling into the California market. Modesto is among the entities owning generation that have answered information requests from FERC. FERC Staff has stated that it is no longer inquiring into the activities of certain entities, though Modesto is still among the entities which are subject to further inquiries by FERC staff.

With respect to the Refund Cases, Modesto received favorable results from a decision rendered by the Ninth Circuit Court of Appeals on September 6, 2005. The court ruled that FERC does not have refund jurisdiction under Section 206 of the Federal Power Act with respect to governmental entities and non-public utilities. This decision has been upheld by the U.S. Supreme Court. FERC appears to be refraining from ordering any amounts owing to Modesto from being released until further notice or until the ISO completes its refund calculations.

In August 2006, the Ninth Circuit issued a decision, as amended, which could have expanded the scope of transactions for which Modesto would have been required to pay refunds, but for the September 2005 decision addressing jurisdiction. The August 2006 decision requires FERC to review certain evidence in considering whether to open up the time period for refunds back to May 2000. The decision also requires FERC to review multi-day transactions, but denies refunds for bilateral sales, including to the California Energy Resources Scheduling ("CERS") division of CDWR. PG&E, Edison and San Diego Gas & Electric Company ("SDG&E") may also use such ruling to support their cases in the civil proceedings discussed below. FERC has opened a hearing, currently stayed pending action on motions for clarification concerning the scope of the remanded case, to address certain issues remanded to it by the Ninth Circuit. While Modesto believes that FERC proceedings on remand should not involve Modesto, due to Modesto's non-jurisdictional status, it is unclear whether the IOUs and their California State allies (collectively, "the California Parties") will seek to include Modesto. Also, while the scope of the hearing procedures would focus on individual, market participant behavior, FERC has not specified any remedies, and Modesto expects that the California Parties will continue to advocate for market-wide remedies. Depending on how the scope of the remanded FERC proceeding evolves, the California Parties may seek to apply FERC's rulings on remand against Modesto in litigation before State of California courts, as described below.

In December 2005, in response to the Ninth Circuit's September 2005 decision, the three IOUs and the California Electricity Oversight Board ("EOB") presented to Modesto and other publicly-owned utilities claims for damages under State law in which they allege the publicly-owned utilities that sold power in the California ISO and PX markets are contractually obligated to refund the difference between the amount originally received and the prices adopted by FERC in the Refund Cases in connection with power sales in the wholesale electricity markets during the period May 1, 2000 through June 20, 2001. Modesto returned the claims without action as untimely. In March 2006, the EOB and the IOUs filed lawsuits against Modesto and others in the United States District Court for the Eastern District of California, Sacramento Division based upon the same claims of overcharging. These lawsuits sought refunds based upon the refunds ordered by FERC for overcharges in the 2000-01 period, plus refunds for a longer refund period than ordered by FERC (extending into the summer of 2000) and for a larger set of transactions from that ordered by FERC (i.e., multi-day and bilateral transactions). On March 16, 2007, the judge in the U.S. District Court litigation dismissed these lawsuits for lack of subject matter jurisdiction, a decision which was appealed to the U.S. Court of Appeals for the Ninth Circuit. This appeal is currently in abeyance. On April 9, 2007, the IOUs and EOB filed a Complaint in state Superior Court in Los Angeles, seeking substantially similar claims as in Federal Court, including claims which would reach back to May of 2000. Modesto and other Defendants demurred on various grounds, such as untimeliness, lack of standing, the lack of existence of a contract, and governmental immunity for certain claims, among others. The Court denied the demurrers with respect to most claims, but as to claims allowed to proceed, Defendants are without prejudice to raising the same defenses raised on demurrer at a later stage of the case. The Court dismissed the EOB as a Plaintiff, without prejudice to the Oversight Board moving to intervene. Modesto answered the Plaintiffs' complaint, denying all claims, and is vigorously defending against this complaint. Defendants' motions for summary judgment were denied, and the case began trial on November 1, 2010. The bench trial phase concluded on November 2, 2010, with a finding that Plaintiffs' claims did not fail for time bar reasons. A jury trial phase on contract and other issues was to begin on November 8, 2010. However, in the interim, Modesto reached a settlement-in-principle with Plaintiffs. The state court judge has stayed the case against Modesto pending finalization of the settlement.

On January 3, 2006 the Attorney General of the State of California and CDWR filed a claim for damages pursuant to the Tort Claims Act. The State's and CDWR's claim arises out of Modesto's power sales into the California ISO/California PX from October 2, 2000 through June 20, 2001. Similar to the California Parties' claim, discussed above, the State and CDWR allege that Modesto is contractually obligated under the California PX Participation Agreement and the ISO Scheduling Coordinator Agreement to reimburse the State and CDWR for any amounts that FERC might find were unjust under the California Refund Proceedings. Modesto returned the claim without action as untimely. On June 14, 2006, the State and CDWR filed their lawsuit against Modesto. On February 23, 2007, the Plaintiffs served their Complaint on Modesto, triggering the time period for Modesto to answer. On February 28, 2007, Modesto and other entities entered into a tolling agreement with the State and CDWR. As an outcome of the tolling agreement, on March 1, 2007, the State and CDWR moved to dismiss its Complaint without prejudice.

Although the California Parties' lawsuits and the State's and CDWR's claims do not specify the amount of damages that the California Parties seek, Modesto expects that the amounts would parallel the refund that Modesto would owe to the market if it were subject to the FERC-based refund liability. Under the latest mitigated market clearing price formula announced by FERC, Modesto estimates its potential refund exposure to be in the range of $4.9 million to $7.7 million, though the range may be increasing due to potential accrued interest, if ordered by a Court. Modesto has recorded an accrued liability of $4.9 million related to this litigation.

In addition, several entities located in the Pacific Northwest have attempted to start complaint procedures at FERC for sales into the Pacific Northwest markets for the 2000-2001 time period. FERC had found that there was no jurisdiction to initiate complaint procedures against municipal entities such as Modesto. FERC also had refrained from initiating complaint procedures at all, though certain entities appealed. The Ninth Circuit has remanded the case to FERC for the agency to consider certain factors, which they believe FERC missed, though Modesto expects that, given the circumstances are even stronger in the Pacific Northwest for a finding of no jurisdiction, that no action will commence against Modesto. The Ninth Circuit also found that FERC must include CERS transactions when it determines whether refunds are warranted for sales in the Pacific Northwest.

Modesto is unable to predict the outcome of these legal actions. In addition, Modesto cannot predict the ultimate outcome of any other investigations and proceedings or any litigation that may follow.

Operations Under Mandatory Reliability Standards. WECC, which has responsibility for enforcing mandatory reliability standards in the Western United States, conducted an investigation in April of 2008 concerning a transmission outage that affected Modesto in August of 2007, though WECC, in a final report, found that Modesto had not violated reliability standards as a result of this outage. However, on February 26, 2010, FERC issued an order undertaking a further inquiry of a settlement reached between Turlock and WECC for alleged violations of a Reliability Standard, arising from the same electrical outage in August 2007. In its Order, FERC raised questions as to Modesto's coordination of electric relays between its system and Turlock's system. Modesto is not certain whether this inquiry will lead to a formal inquiry against Modesto. Modesto believes it acted in accordance with all mandatory standards in connection with the outage and, as noted, WECC had issued a Final Report clearing Modesto as to the event. Nevertheless, Modesto is not certain if FERC will turn its inquiry to Modesto, and accordingly, on March 18, 2010, Modesto provided a response to FERC, as well as the information requested by FERC. FERC has not taken any action with respect to Modesto's or Turlock's responses.

WECC also reviewed Modesto's compliance with Protection and Control Reliability standards, generally concerning protective relays, and noted outstanding violations (though not of standards noted specifically in the FERC order concerning Turlock referenced above), though Modesto has not received an indication, if it will receive any, as to whether WECC will levy penalties as to these matters.

MRTU Filing. On February 9, 2006, the ISO filed with FERC the first set of tariff language to implement its FERC ordered overhaul of the ISO markets. The ISO's MRTU tariff amendment included provisions intended to perform effective congestion management in the ISO day-ahead market by enforcing all transmission constraints so as to establish feasible forward transmission schedules; create a day-ahead market for energy; automate real-time dispatch so as to balance the system and manage congestion in an optimal manner; and ensure consistency in the allocation of transmission resources to grid users and the pricing of transmission service and energy. On September 21, 2006, FERC issued an order conditionally accepting the MRTU filing. Subsequent MRTU amendments were designed to ensure that the ISO has sufficient capacity available to maintain reliability on the ISO grid. MRTU went on-line on April 1, 2009.

Elements of the redesign that could entail significant financial impacts include the implementation of Locational Marginal Pricing ("LMP") to price transmission, the use of marginal rather than average transmission losses, and the phasing out of liquidated damages power purchase contracts for Resource Adequacy or similar purposes. Potentially, one of the more significant cost exposures under the MRTU redesign is likely to be increased congestion costs under LMP. Some of the more recent tariff amendments have clarified the nature of short and long-term financial instruments that LSEs can use to hedge against anticipated congestion costs. However, it is not possible to predict the actual level of costs or the effectiveness of the hedging instruments before gaining additional actual operational experience under MRTU.

Marginal transmission losses are also anticipated to be a potentially significant cost, and no hedging instruments are available at this time to address them. However, there may be operational practices that can minimize the costs. Because MRTU has relatively recently become operational, and because loss overcollections will be returned to market participants in some fashion, the level of impact cannot be judged at this time.

Other Matters. At any given time, including the present, there are certain other claims and disputes, including those currently in litigation, that arise in the normal course of Modesto's activities. Such matters could, if determined adversely to Modesto, affect expenditures by Modesto, and in some cases, its revenues. Modesto's management and Modesto's counsel are of the opinion that no pending actions are likely to have a material adverse effect on Modesto's ability to make payments to M-S-R PPA under the Power Sales Agreement. Much of the litigation involves charges arising from the administration and operations of the ISO markets, such as the ISO Grid Management Charge and the allocation of generator Minimum Load costs. Other litigation has involved the investor-owned utilities' Transmission Access Charge ("TAC") rates, which Modesto pays via the ISO's Wheeling Access Charge. Other issues have arisen from the ISO's treatment of pricing methodologies for Integrated Balancing Authority Areas, which involves how the ISO processes certain transactions for adjacent areas outside of its reliability and balancing control, pursuant to the new MRTU construct. Modesto did not prevail in contesting this pricing methodology either at FERC or on appeal, but was able to obtain the opportunity to mitigate some of the impacts from this treatment through changes obtained at FERC to the ISO's compliance filings on this matter. Modesto has also recently contested a significant amount of a proposed increase in PG&E's wholesale electric rates (PG&E's thirteenth such filing) via the ISO's TAC and Wheeling Access Charges. FERC set PG&E's rate increase for settlement proceeding, and if necessary, hearing. Modesto has reached a settlement as to an increase to ISO rates proposed by Edison (Edison's fifth such filing), which was approved by FERC. However, Modesto is participating in a proceeding concerning Edison's rates for construction work-in-progress for certain transmission projects that is in settlement discussions, and if necessary, hearing. Such rates would impact the aforementioned ISO rates. The potential cost increase to Modesto from these new PG&E and Edison proposed changes to the ISO rates is determined at least in part by usage of the ISO-controlled transmission grid and cannot be determined at this time.

Condensed Operating Results and Balance Sheet Information

The following table sets forth summaries of electric system revenues and expenses and debt service information for the five years ended December 31, 2010. Also included in the table is selected balance sheet information as of the end of such periods.

The revenues, maintenance and operation costs and selected balance sheet information relating to December 31, 2005 through December 31, 2009 and full year periods then ended was derived from information included in Modesto's audited financial statements. The information for the fiscal year ended December 31, 2010 was prepared by Modesto on the basis of unaudited financial information.

The following table also sets forth debt service coverage ratios with respect to Modesto's outstanding electric system revenue obligations for such full Fiscal Years, computed in accordance with the instruments authorizing such electric system revenue obligations.

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MODESTO IRRIGATION DISTRICT
ELECTRIC SYSTEM STATEMENT OF REVENUES AND EXPENSES AND DEBT SERVICE COVERAGE RATIOS
(thousands of dollars)

	Year Ended December 31,				
	2006	**2007**	**2008**	**2009**	**(unaudited) 2010**
Revenue:					
Retail Electric Sales	$250,557	$257,259	$283,713	$299,962	$308,186
Wholesale Electric Sales	28,380	20,720	13,396	3,924	8,537
Other Income[1]	19,526	18,540	18,294	8,179	15,266
Total System Revenues	$298,463	$296,519	$315,403	$312,065	$331,989
Maintenance & Operation:					
Purchased Power[2]	$148,413	$162,403	$178,806	$167,781	$167,009
Power Generation[3]	39,940	43,141	47,838	37,757	38,815
Maintenance & Operation	42,680	52,509	50,125	56,563	57,855
Total Maintenance & Operation	$231,033	$258,053	$276,769	$262,101	$263,679
Net Electric System Revenue	$ 67,430	$ 38,466	$ 38,634	$ 49,964	$ 68,310
Use of Reserves[4]	–	10,000	7,000	2,000	--
JPA Obligation Service[5]	24,875	26,137	24,265	25,636	27,485
Adjusted Net Electric System Revenue[6]	$ 92,305	$ 74,603	$ 69,899	$ 77,600	$ 95,795
Debt & Obligation Service:					
Senior Lien Debt Service	$ 9,246	$ --	$ --	$ --	$ --
Junior Lien Debt Service	26,629	40,009	39,536	44,986	50,093
JPA Obligation Service[5]	24,875	26,137	24,265	25,636	27,485
Total Debt & Obligation Service	$ 60,750	$ 66,146	$ 63,801	$ 70,622	$ 77,578
Senior Lien Debt Service Coverage[7]	7.29	--	--	--	--
Junior Lien Debt Service Coverage[8]	2.18	1.21	1.15	1.16	1.36
Adjusted Debt Service Coverage[9]	1.52	1.13	1.10	1.10	1.23
Selected Balance Sheet Information:					
System Fund Balance	$ 99,768	$ 95,472	$52,704	$ 70,610	$ 66,750
Rate Stabilization	53,750	53,750	53,750	53,750	53,750
General Fund Balance[10]	$153,518	$149,222	$106,454	$124,360	$120,500
Net Plant in Service	$510,278	$509,331	$542,362	$554,653	$519,913
Construction Work in Progress	17,574	48,778	75,509	100,215	176,758
Net Electric Utility Plant	$527,852	$558,109	$617,871	$654,868	$696,671

(1) Interest income and miscellaneous income.
(2) Represents purchased power from all sources, including joint powers agencies. Includes purchases made as part of Modesto's wholesale energy activities.
(3) Represents District-owned generation resources.
(4) Represents lawfully available funds budgeted by Modesto to be used for Maintenance & Operation Costs or debt service which are used for the purpose of the debt service coverage calculation for junior lien debt.
(5) Represents debt service on Modesto's percentage share of indebtedness in the M-S-R PPA and TANC.
(6) Represents Net Electric System Revenues plus Obligation Service and Use of Reserves.
(7) Represents Net Electric System Revenues divided by Senior Lien Debt Service. All Senior Lien Obligations were retired during 2006.
(8) Represents Net Electric System Revenues plus Use of Reserves less Senior Lien Debt Service divided by Junior Lien Debt Service.
(9) Represents Adjusted Net Electric System Revenues divided by Total Debt and Obligation Service.
(10) Represents the total unrestricted cash and investments of Modesto.

Source: Modesto Irrigation District.

Discussion of District Actions in Response to Changing Energy Market Conditions

General. Between 2002 and 2010, Modesto's power generation and purchase costs rose approximately 40% on a kWh basis. As a result of these increases in the cost of purchased power and fuel, since 2002 Modesto's Board of Directors has authorized rate increases varying from a total of 75% to 90% depending on the rate class. Most recently, a 7.0% system-wide rate increase was implemented which took effect on February 1, 2010 and a 7.0% rate increase, comprised of a 2% base rate increase and a $0.0063/kWh Green Energy Surcharge (equating to an additional 5.0% rate increase) was implemented which took effect on January 1, 2011. See "Rates and Charges" above. The cost increases have been caused by several factors, including, among others:

- Volatility in natural gas prices;
- The expiration of several favorable purchased power contracts of Modesto; and
- Increased costs associated with State and federal legislation and regulations, largely relating to renewable energy standards, constraints on the use of certain fossil fuel resources and emerging reliability standards.

In addition to implementing a number of rate increases as noted above, Modesto has attempted to respond to increased power costs by:

- Enhancing the use of hedging to include natural gas as well as electricity;
- Seeking to diversify both conventional power plants and renewable resources to make Modesto less reliant on natural gas or coal resources and to satisfy renewables mandates;
- Increasing the use of demand side management programs;
- Continued maintenance of a rate stabilization and other unrestricted funds to moderate rate increases and provide for contingencies.

Modesto anticipates that future rate increases will be required to address the continued escalation in energy costs resulting from rising fuel costs, renewables mandates and other cost increases.

Management Policies. In March 2010, Modesto adopted management policies that include, among other things, guidelines for debt service coverage and the maintenance of formal reserves. Modesto's policy will be to seek to maintain a debt service coverage ratio of 1.25 on the sum of the outstanding Obligation Service and Debt Service. Modesto has also adopted a policy to maintain operating reserves equal to 120 days' of operating expenses. Modesto is developing plans and its expected time frame to implement these policy objectives and currently projects that it will achieve such policy objectives by the end of Fiscal Year 2014.

CITY OF SANTA CLARA

Introduction

Santa Clara is a charter city located in the State of California. Pursuant to its charter, Santa Clara has the power to furnish electric utility service within its service area. In connection therewith, Santa Clara has the powers of eminent domain, to contract, to construct works, to fix rates and charges for commodities or services it provides and to incur indebtedness.

Santa Clara provides electric utility service through its electric utility department. Santa Clara offers its electricity and energy services through the trademarked name of "Silicon Valley Power." In addition, Santa Clara provides other city services to its inhabitants, including police and fire protection, and water and sewer service.

The legal responsibilities and powers of Santa Clara, including the establishment of rates and charges, are exercised by the seven member Santa Clara City Council. The members of Santa Clara City Council are elected city-wide for staggered four year terms. The Santa Clara electric utility department is under the direction of the Director of Electric Utility who, together with certain other senior managers of the electric utility department, is appointed by and reports to the Santa Clara City Manager.

Since 1896, Santa Clara has provided all electric service within an area coterminous with Santa Clara's boundaries. As of January 1, 2010 (the most recent information available), Santa Clara had an estimated population of 118,830. For the fiscal year ended June 30, 2010, Santa Clara served an average of 52,364 customers per month, had total sales of 2,764 GWh and a peak demand of 459.8 MW. Approximately 87% of Santa Clara's energy sales are made to large commercial and industrial customers.

To provide electric service within its service area, Santa Clara owns and operates an electric system which includes generation, transmission and distribution facilities. Santa Clara also purchases power and transmission services from other providers and participates in other utility type arrangements.

Only the revenues of Santa Clara's electric utility department will be available to pay amounts owed by Santa Clara under the Power Sales Agreement.

The Santa Clara electric utility department's main office is located at Santa Clara City Hall, 1500 Warburton Avenue, Santa Clara, California 95050, (408) 261-5292. A copy of the most recent annual report of Santa Clara and its electric utility department (the "Annual Report') may be obtained from Janis C. Pepper, Division Manager, at the above address and telephone number and is also available at *http://santaclara.gov/finance/fi_cafr.html*. The Annual Report is incorporated herein by this reference. However, the information presented on such website or referenced therein other than the Annual Report is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2011O Bonds.

Power Supply Resources

The following table sets forth information concerning Santa Clara's power supply resources and the energy supplied by each during the fiscal year ended June 30, 2010.

CITY OF SANTA CLARA
ELECTRIC UTILITY DEPARTMENT
POWER SUPPLY RESOURCES
(For the Fiscal Year Ended June 30, 2010)

Source	Capacity Available (MW)	Recorded Energy (GWh)	Percent of Total Energy
City-Owned Generating Facilities[(1)]			
Cogeneration	7.0	28.5	1.0%
Stony Creek Hydro System	11.6	25.3	0.9
Gianera Generating Station	49.5	0.0	0.0
Grizzly Project	17.7	32.8	1.1
Don Von Raesfeld Power Plant	147.8	499.1	17.2
Purchased Power:[(2)]			
Western[(3)]	136.0	202.0	6.9
Altamont Wind	17.1	25.4	0.9
G2 (Landfill)	1.6	10.7	0.4
Ameresco (Landfill)	0.5	2.2	0.1
Market Purchases	50.0	958.5	32.9
Joint Power Agencies:			
NCPA			
Geothermal Project	71.7	325.1	11.2
Combustion Turbine Project	30.9	0.1	0.0
Hydroelectric Project	93.7	198.2	6.8
M-S-R PPA			
San Juan	51.0	353.5[(4)]	12.1
Big Horn Wind Energy	105.0	247.7	8.5
Total*	791.1	2,909.3	100.0%

* Columns may not add to totals due to rounding.

(1) Rated or name-plate capacities.
(2) Capacity Available from Purchased Power resources represents entitlements, firm allocations and contract amounts.
(3) Santa Clara purchased varying amounts of capacity from Western during the year.
(4) Figures represent energy delivered to Santa Clara net of sales to market.

Source: City of Santa Clara.

Generating Facilities

Cogeneration. Santa Clara owns and operates a cogeneration plant which began operation in 1981. The cogeneration plant provides steam for sale to a paperboard plant in Santa Clara and delivers power to Santa Clara's electric distribution system. Santa Clara upgraded this plant to obtain a new name-plate rating of 7.4 MW, effective July 1995. Fuel for the cogeneration plant (natural gas) is generally acquired under term contracts at prices fixed for the contract term.

Stony Creek Hydroelectric System. Santa Clara owns and operates three hydroelectric plants consisting of (i) a 4.9 MW hydroelectric generating plant located at the United States Bureau of Reclamation Stony Gorge Dam near Willows, California, which was completed in 1985, (ii) a 6.2 MW hydroelectric generating plant located at the United States Army Corps of Engineers' Black Butte Dam near Orland, California, which was completed in late 1988, and (iii) a 0.53 MW hydroelectric generating plant located at the Orland Unit Water Users' Association High Line Canal/South Side Canal drop near the Black Butte dam, which was completed in late 1988.

Gianera Generating Station. Santa Clara owns and operates a nominal 49.9 MW dual fuel (natural gas and fuel-oil) combustion turbine generating plant consisting of two 25 MW units, which were completed in 1986 and 1987, respectively. This generation station is used to help meet Santa Clara's peak load and resource adequacy requirements.

PG&E Grizzly Project. Pursuant to a 1990 settlement agreement with PG&E, Santa Clara agreed to finance and own 100% of a 20 MW hydroelectric facility (the "Grizzly Project") located on Grizzly Creek above the North Fork of the Feather River in Plumas County, California. The Grizzly Project operates in combination with the hydroelectric facilities of PG&E's Bucks Creek project. Pursuant to the settlement agreement, Santa Clara became a joint licensee in PG&E's Bucks Creek project. The construction of the Grizzly Project was financed (and refinanced) through the issuance by Santa Clara of electric system revenue bonds. Pursuant to the settlement agreement, PG&E constructed and operates the Grizzly Project, which was placed into operation in November 1993.

Until the date Santa Clara's ownership of the Grizzly Project is terminated (as described below), Santa Clara will own and receive all energy generated by the Grizzly Project, less transmission losses, as described in the settlement agreement (which reflects a contract capacity amount of 17.66 MW).

The Grizzly Project facilities include a tunnel intake structure, surge tank, steel penstock, powerhouse, turbine, transmission line (nominally rated at 115 kV) for interconnection with PG&E's transmission system and certain additional switchyard equipment and related facilities. Annual energy generation of the Grizzly Project is estimated at 57.3 GWh in an average water year and 26.1 GWh in dry years. For the fiscal year ended June 30, 2010, the Grizzly Project generated 32.8 GWh of energy.

Pursuant to the settlement agreement, Santa Clara's interest in the Grizzly Project may revert to PG&E under certain limited circumstances. In the event of such reversion, Santa Clara will be reimbursed by PG&E for the fair market value of the project or be reimbursed for costs advanced by Santa Clara as provided in the settlement agreement. The earliest possible reverter date under the settlement agreement is November 18, 2027.

Don Von Raesfeld Power Plant. Santa Clara constructed and placed into commercial operation on March 22, 2005, a 122 MW nominal/147 MW peak, natural gas-fired, combined cycle power plant known as the "Don Von Raesfeld Power Plant" (initially designated by the Santa Clara City Council as the Pico Power Plant). The Don Von Raesfeld Power Plant is located in an industrial area of the city, on the site of Santa Clara's Kifer Receiving Station. The Don Von Raesfeld Power Plant includes its own switchyard, and connects to an existing 115 kV transmission line that currently crosses the plant site. Natural gas for the Don Von Raesfeld Power Plant is delivered through an approximately two mile gas pipeline from the local transmission main of PG&E. For the fiscal year ended June 30, 2010, the Don Von Raesfeld Power Plant generated 499.1 GWh of energy. Santa Clara has long-term agreements with Shell Energy North America and M-S-R Energy Authority (see "–Joint Power Agency Resources – *M-S-R Energy Authority–Gas Prepay*" below) in place for a significant portion of the Plant's fuel requirements, and actively manages the quantity and price risks associated with fuel supply quantities not under long-term agreement. Fully baseloaded, the Plant could generate approximately 1,000 GWh of energy per year. However, Santa Clara substitutes market purchases when it is economical to do so.

Joint Powers Agency Resources

Santa Clara, together with the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville and Ukiah, the Plumas-Sierra Rural Electric Cooperative, the Turlock Irrigation District (which will withdraw from NCPA as of April 1, 2011), the Truckee-Donner Public Utility District, the San Francisco Bay Area Rapid Transit District ("BART") and the City of Oakland, acting by and through its Board of Port Commissioners, is a member of the California joint powers agency known as the Northern California Power Agency ("NCPA").

NCPA Geothermal Project. NCPA has developed a geothermal project (the "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 Geothermal Project consists of two electric generating stations (Geothermal Plant 1 and Geothermal Plant 2), each with two 55 MW (nameplate rating) turbine generating units utilizing low pressure, low temperature geothermal steam, and associated facilities. NCPA Geothermal Plants 1 and 2, the steam supply and its development were financed with NCPA revenue bonds. NCPA formed two not-for-profit corporations controlled by its members to own the generating plants of the Geothermal Project. NCPA manages the

Geothermal Project for the corporations and is entitled to all the capacity and energy generated by the Geothermal Project. Geothermal Plant 1 and Geothermal Plant 2 were originally developed and operated as separate projects referred to as "Geothermal Project Number 2" and "Geothermal Project Number 3," respectively. Plant 1 and Plant 2 are now operated together as the Project pursuant to the terms of the NCPA Geothermal Operating Agreement.

Steam for NCPA's geothermal plants comes from lands in the Geysers Area, which are leased by NCPA from the federal government. NCPA operates these steam-supply areas. Operation of the geothermal plants at high generation levels, together with high steam usage by others in the same area, resulted in a decline in the steam production from the steam wells at a rate greater than expected. As a result, by April 1988, for the purpose of slowing the decline in the steam field capability, NCPA changed its steam field production from base-load to load-following and reduced average annual generation. These changes were effective in reducing the decline in steam production.

Beginning in 1991, along with other steam field operators in the area, NCPA began implementing various operating strategies to further reduce the rate of decline in steam production. NCPA has modified both steam turbine units at Plant 1 and the associated steam collection system to enable generation with lower pressure steam at higher mass-flow rates to optimize the utilization of the available steam resource.

NCPA also entered into agreements with other producers in the Geysers Area to finance and construct the Southeast Geysers Effluent Pipeline Project, which was completed in September 1997 and began operating soon thereafter. The 26-mile pipeline collects waste water from Lake County Sanitation District treatment plants at Clearlake and Middletown and delivers the waste water to NCPA and the other Geysers steam field operator for injection into the steam field. A second pipeline enhancement project to further augment the waste water injection program was completed in 2004. Contractual changes made in connection with the project have increased NCPA's entitlement to receive waste water for reinjection from 33% to 44%.

The Geothermal Project will generate between approximately 106 to 112 MW (projected gross annual average) with an average of 108 MW gross ("MWG") in a predominantly baseload operation in calendar year ("CY") 2011. Based on current operating protocols and forecasted operations, after CY 2011 both the average and peak capacity are expected to continue to decrease, reaching approximately 105 MWG by CY 2012 and 70 MWG by CY 2034. Under terms of the federal geothermal leasehold agreements, which became effective August 1, 1974, the leasehold had a 10-year primary term with provision for renewal as long thereafter as geothermal steam is produced or utilized, but not longer than 40 years. At the expiration of that period, if geothermal steam is still being produced, NCPA has preferential right to renew the leasehold for a second term. The leasehold also requires NCPA to remove its leasehold improvements including the geothermal plants and steam gathering system when and if NCPA abandons the leasehold. These decommissioning costs are currently estimated to total approximately $24.1 million. NCPA has been collecting about 1% per annum of the expected decommissioning costs and is expected to increase such collections to approximately 6% per annum in fiscal year 2010-11.

NCPA financed the Geothermal Project with Geothermal Project Number 3 Revenue Bonds, of which $35.6 million were outstanding as of February 1, 2011.

NCPA has sold the capacity of the Geothermal Project to some of its members, including Santa Clara, pursuant to a "take-or-pay" power sales contract which requires payments to be made whether or not the project is operable. Each participant is responsible under the power sales contract for paying its capacity share of all of NCPA's costs of the Geothermal Project, including debt service on the aforementioned NCPA bonds, and subject to a "step-up" obligation of up to 25% upon the unremedied default of another NCPA Geothermal Project participant. Santa Clara has purchased from NCPA, pursuant to power sales contracts, 54.65% and 34.13% entitlement shares, respectively, in the capacity of NCPA's Geothermal Plants 1 and 2 and is obligated to pay 44.39% of the debt service and operating costs associated with such plants and steam field. Santa Clara is currently taking delivery of its share of the capacity and associated energy from the Geothermal Project. For the fiscal year ended June 30, 2010, Santa Clara received 325.1 GWh of electric energy from the Geothermal Project. Santa Clara's share of the current ISO maximum rated capacity of the project is 71.7 MW.

NCPA Geysers Transmission Project. In order to meet certain obligations required of NCPA to secure transmission and other support services for the Geothermal Project, NCPA undertook the geysers transmission project (the "Geysers Transmission Project"). The Geysers Transmission Project includes (i) an ownership interest in PG&E's 230 kV line from Castle Rock Junction in Sonoma County to the Lakeville Substation (the "Castle Rock to Lakeville Line"), (ii) additional firm transmission rights in the Castle Rock to Lakeville Line and (iii) the Central Dispatch Facility (described above). Santa Clara has a 55 MW share in NCPA's Geysers Transmission Project, which provides a link from the Geysers to PG&E's bulk transmission system. Through a long-term contract with the California Department of Water Resources ("CDWR"), sufficient additional transmission capability on the same line is available for the balance of Santa Clara's share of the capacity and energy produced by the NCPA Geothermal Project. Santa Clara obtains additional transmission services to Santa Clara for its share of the output of NCPA Geothermal Project from arrangements with PG&E and the ISO.

NCPA Combustion Turbine Project No. 1. NCPA has developed its Combustion Turbine Project Number One (CT 1) (the "Combustion Turbine Project") consisting of five combustion turbine units, each nominally rated 25 MW. Two of the units are located in the City of Roseville, two are in the City of Alameda and one is in the City of Lodi. NCPA, on behalf of the project participants of the Combustion Turbine Project, has entered into a Consolidated Natural Gas Purchase and Management Agreement (the "Consolidated Natural Gas Agreement"), effective September 1, 2007, with Constellation NewEnergy - Gas Division, LLC and Constellation NewEnergy - Canada, Inc. (collectively, "Constellation"), which provides a supply of gas for the full daily output of the Combustion Turbine Project . The gas may be purchased on a daily basis or for a forward time period with the gas price fixed at the time of commitment. NCPA and Constellation each have the right to terminate the Consolidated Natural Gas Agreement with six months' notice; otherwise, the agreement automatically renews each January 1. The agreement continued in effect on January 1, 2011.

The 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) to be used to meet the capacity reserve requirements. Such reserve capacity is operated only during emergency periods when other resources are unexpectedly out of service.

Santa Clara purchased a 25% entitlement share in the Combustion Turbine Project pursuant to a power sales contract with NCPA, which has recently been amended to reflect that Santa Clara's 25% share comes specifically from the two Alameda plants and the Lodi plant. Santa Clara uses this entitlement for resource adequacy purposes and to meet peak load requirements. Santa Clara delivers this entitlement to its electric system in accordance with ISO tariffs. For the fiscal year ended June 30, 2010, Santa Clara received 131 MWh of electric energy from the Combustion Turbine Project.

NCPA Hydroelectric Project. NCPA's Hydroelectric Project Number One (the "Hydroelectric Project") consists of (a) three diversion dams, (b) the 243-MW Collierville Powerhouse, (c) the New Spicer Meadow Dam with a 5.5 MW powerhouse, and (d) associated tunnels located essentially on the North Fork Stanislaus River and or the Stanislaus River in Alpine, Tuolumne and Calaveras Counties, California, together with required transmission facilities.

The Hydroelectric Project, with the exception of certain transmission facilities, is owned by the Calaveras County Water District ("CCWD") and is licensed by the Federal Energy Regulatory Commission ("FERC") pursuant to a 50-year License Project No. 2409 (issued in 1982) to CCWD. Pursuant to a Power Purchase Contract, NCPA (i) is entitled to the electric output of the Hydroelectric Project until February 2032, (ii) managed the construction of the Hydroelectric Project, and (iii) operates the generating and recreational facilities of the Hydroelectric Project. Under a separate FERC-issued license with an expiration date coterminous with the Project No. 2409 license (Project No. 11197), NCPA holds the license and owns the 230 kV Collierville-Bellota and the 21 kV Spicer Meadows-Cabbage Patch transmission lines for Project No. 2409. NCPA also has a separate FERC license for Project No. 11563 (Upper Utica Project), which consists of three storage reservoirs that mainly feed the New Spicer Meadow Reservoir. This license expires in 2033. After the present FERC License for Project No. 2409 expires in the year 2032, NCPA has the option to continue to purchase Hydroelectric Project capacity and energy during a subsequent license renewal period. The purchase option includes all capacity and energy which is surplus to CCWD's needs for power within the boundaries of Calaveras County.

In February 1990, the operating portions of the Hydroelectric Project were declared substantially complete and commercially operable. The Hydroelectric Project has been supplying peak load requirements of the project participants therein and complementing other resources available to them through NCPA. As with any hydroelectric generation project, the operation of the Hydroelectric Project is determined by consideration of its storage capacity and available stream flows. The Hydroelectric Project has a 97-year record (1913 to 2010) of streamflows. Based upon the record, the Hydroelectric Project's average production is estimated to be 540 GWh annually. Using the driest period of record (1976-1977), the Hydroelectric Project is estimated to produce 180 GWh annually. The Hydroelectric Project is optimized together with NCPA's other resources as determined by NCPA to economically meet the load requirements of the respective project participants. The load-following characteristics of the Hydroelectric Project, together with the ability to schedule Western Area Power Administration ("Western") energy deliveries, give NCPA a great degree of flexibility in meeting the hourly and daily variations which occur in the project participants' loads.

NCPA financed the Hydroelectric Project through the issuance of Hydroelectric Project Number One Revenue Bonds, of which approximately $449.5 million aggregate principal amount was outstanding as of February 1, 2011 (the "NCPA Hydroelectric Revenue Bonds"). NCPA has sold the capacity of the Hydroelectric Project to certain of its project participants, including Santa Clara, pursuant to "take-or-pay" power sales contracts which require payments to be made whether or not the Hydroelectric Project is operable. Each purchaser is responsible under its power sales contract for paying its entitlement share in the Hydroelectric Project of all of NCPA's costs of the Hydroelectric Project, including debt service on the aforementioned bonds as well as a "step -up" of up to 25% in the event of the unremedied default of another project participant. Pursuant to a power sales contract, Santa Clara has purchased from NCPA a 37.02% entitlement share in NCPA's Hydroelectric Project (including a 1.16% entitlement share laid off to Santa Clara from the cities of Biggs and Gridley). Santa Clara is using this entitlement to serve peak load and to provide capacity to support non-firm purchases of energy at market prices. For the fiscal year ended June 30, 2010, Santa Clara received 198.2 GWh of electric energy from the NCPA Hydroelectric Project. Santa Clara receives this entitlement to its system by using transmission service available under its Metered Subsystem Agreement ("MSS Agreement") with the ISO.

TANC California–Oregon Transmission Project. Santa Clara is a member of TANC and has executed the TANC Agreement for a participation percentage of TANC's entitlement of COTP transfer capability. Pursuant to the TANC Agreement, Santa Clara is obligated to pay 20.47% of TANC's COTP operating and maintenance expenses and 20.70% of TANC's non-Vernon related debt service and 22.16% of the Vernon COTP transmission assets acquisition debt. Santa Clara is entitled to 20.4745% of TANC's share of COTP transfer capability (approximately 278 MW net of third party layoffs of TANC) on an unconditional take-or-pay basis. Santa Clara is using a portion of its share of the project transfer capability of the COTP to provide transmission of energy generated from the Big Horn Wind Energy Project and Santa Clara's share of the SCL-NCPA Exchange Agreement (described below under "Purchased Power"). Santa Clara's share of annual operating and maintenance expenses and debt service for the COTP through TANC is approximately $12 million per year. Santa Clara's payment to TANC, including debt service on TANC's revenue bonds, constitute an operating expense of the electric system. See "MODESTO IRRIGATION DISTRICT – Power Supply Resources – Joint Powers Agency Resources – *TANC California–Oregon Transmission Project*" in this Appendix A for a further description of TANC and COTP.

Tesla–Midway Transmission Service. PG&E provides TANC and some of the members with 300 MW of firm, bi-directional transmission service between TANC members and the Midway Substation and between the COTP and the Midway Substation near Buttonwillow, California (the "Tesla–Midway Transmission Service") under an agreement known as the South of Tesla Principles. Santa Clara's share of Tesla–Midway Transmission Service is 81 MW. Santa Clara has utilized its full allocation of Tesla–Midway Transmission Service for firm and non-firm power transactions. See "MODESTO IRRIGATION DISTRICT – Power Supply Resources – Joint Powers Agency Resources – *Tesla–Midway Transmission Service*" in this Appendix A for a further description of the Tesla–Midway Transmission Service.

Santa Clara anticipates continuing to use its share of the TANC Tesla–Midway Transmission Service to provide access to power supplies located in the southwest, including delivery of power and energy from the San Juan Unit No. 4. See "*–M-S-R PPA Purchased Power–San Juan Project*" below.

Santa Clara has agreed with SMUD to lay off 30 MW of its capacity of the Tesla–Midway Transmission Service, for the period beginning January 1, 2009 and going through June 30, 2013, to more closely align its service with that needed for the delivery of energy from San Juan Unit No. 4. The layoff will allow Santa Clara to nominate more Congestion Revenue Rights in the ISO allocation process thus allowing Santa Clara an opportunity to more effectively hedge congestion exposure under the ISO Market Redesign and Technology Upgrade (MRTU). See "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ISO FERC Filings – M*RTU Filing; Implementation of MRTU*" in the forepart of this Official Statement.

M-S-R PPA Purchased Power–San Juan Project. As described in the forepart of this Official Statement, Santa Clara has purchased from M-S-R PPA a 35% entitlement share in M-S-R PPA's San Juan Ownership Interest pursuant to the Power Sales Agreement), which includes approximately 51.1 MW of capacity and associated energy from the M-S-R PPA San Juan Project Ownership Interest. See "MODESTO IRRIGATION DISTRICT – Power Supply Resources – Joint Powers Agency Resources – *M-S-R PPA Purchased Power–San Juan Project*" in this Appendix A for a further description of the M-S-R PPA San Juan Ownership Interest.

Santa Clara's payments to M-S-R PPA, including debt service on M-S-R PPA revenue bonds proceeds of which were used to purchase the M-S-R PPA San Juan Ownership Interest, constitute an operating expense of the electric system.

Santa Clara uses its M-S-R PPA San Juan Ownership Interest capacity and energy to serve in its own system or for short-term layoffs to others based upon monthly economic dispatch considerations. M-S-R PPA obtains firm transmission to transmit to the M-S-R PPA members the capacity and energy of the M-S-R PPA San Juan Ownership Interest through firm transmission service agreements executed with Los Angeles Department of Water and Power ("LADWP") and Southern California Edison Company ("Edison") and via the M-S-R PPA Southwest Transmission Project (described below). For the fiscal year ended June 30, 2010, Santa Clara received 353.5 GWh of energy from the San Juan Project.

In connection with the cap-and-trade program adopted by the California Air Resources Board pursuant to Assembly Bill 32 ("AB 32") to reduce greenhouse gas emissions, M-S-R PPA may be required to account for carbon emissions of the San Juan Unit No. 4 and provide off-setting allowances thereto. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS – State Legislation – *Greenhouse Gas Emissions*" in the forepart of this Official Statement.

See "THE PROJECT" in the forepart of this Official Statement and "MODESTO IRRIGATION DISTRICT – Joint Powers Agency Resources – *M-S-R PPA Purchased Power–San Juan Project*" in this Appendix A for a further description of the M-S-R PPA San Juan Project.

M-S-R PPA Southwest Transmission Project. The Southwest Transmission Project consists of M-S-R PPA's acquisition of an interest in a 500 kV alternating current transmission project between the central Arizona area and the Los Angeles basin and certain other transmission facilities and arrangements to provide for the delivery of power and energy from the San Juan Unit No. 4 Interest to the M-S-R PPA members' systems in Northern California. Under the Power Sales Agreement, Santa Clara is unconditionally obligated for 35% of the costs of the M-S-R PPA Southwest Transmission Project, subject to certain step up provisions. Transmission service from the Midway Substation to Santa Clara's electric system is provided by the TANC Tesla–Midway Service. See "*–Tesla–Midway Transmission Service*" above. M-S-R PPA financed the acquisition of the Southwest Transmission Project through the issuance of San Juan Project revenue bonds, of which approximately $39.4 million was outstanding as of February 1, 2011. See "Indebtedness" below.

M-S-R PPA Purchased Power–Big Horn Wind Energy Project. In 2005, M-S-R PPA entered into a series of power purchase agreements with Iberdrola Renewables, Inc. (formerly PPM Energy, Inc.) ("Iberdrola"), certain of which agreements have been assigned to Iberdrola's subsidiary, Big Horn I, LLC, for the purchase of energy from the Big Horn wind energy project (the "Big Horn Project") located near the town of Bickleton, in Klickitat County, Washington. Santa Clara receives 52.5% of the power purchased by M-S-R PPA from the Big Horn Project. Santa Clara's share equates to approximately a 105 MW share of the output at a cost comparable to combined cycle gas-fuel generation. Power deliveries commenced on October 1, 2006 and will continue through September 30, 2026. For the fiscal year ended June 30, 2010, Santa Clara received 247.7 GWh of energy from the

Big Horn Project. Santa Clara uses a portion of its transfer capability of the COTP to provide for transmission of the output from the Big Horn Project from the California-Oregon border.

More recently, M-S-R PPA negotiated a 25-year agreement with Iberdrola for the purchase of the output from a 50 MW expansion of the Big Horn Project, the Big Horn II Project. Santa Clara will receive 35% of the output from this project, or approximately 17.5 MW of project capacity. Santa Clara began receiving deliveries from the Big Horn II Project in November 2010.

See "MODESTO IRRIGATION DISTRICT – Power Supply Resources – Joint Powers Agency Resources – *M-S-R PPA Purchased Power–Big Horn Wind Energy Project*" in this Appendix A for a further description of the Big Horn Project.

M-S-R Energy Authority–Gas Prepay. In 2009, Santa Clara participated in the M-S-R Energy Authority ("M-S-R EA") Gas Prepay Project. The Gas Prepay Project provides, through a Gas Supply Agreement between M-S-R EA and Santa Clara, for a secure and long-term supply of natural gas of 7,500 MMBtu daily (or 2,730,500 MMBtu annually) through December 31, 2012, and 12,500 MMBtu daily (or 4,562,500 MMBtu annually) thereafter until September 30, 2039. The Gas Supply Agreement provides this supply at a discounted price below the monthly market index price (the PG&E Citygate index) over the 30-year term. M-S-R EA entered into a prepaid gas purchase agreement with Citigroup Energy, Inc. ("CEI") to provide this gas supply, and issued $500.2 million of its Gas Project Revenue Bonds to finance the prepayment for Santa Clara. Under the terms of the Gas Supply Agreement, M-S-R EA will bill Santa Clara for actual quantities of natural gas delivered each month on a "take-and-pay" basis. Moreover, any default by CEI or the other participants in M-S-R EA's Gas Prepay Project, Modesto and Redding, is non-recourse to Santa Clara.

Purchased Power

Western Purchased Power. On December 14, 2000, Santa Clara signed a 20-year agreement with Western Area Power Administration ("Western") for the continued purchase of low-cost hydroelectricity from the Central Valley Project ("CVP"), replacing a prior agreement which expired December 31, 2004. The CVP, for which Western serves as marketing agency, is a series of federal hydroelectric facilities in Northern California operated by the United States Bureau of Reclamation. Service under the successor agreement began on January 1, 2005 and continues through December 31, 2025, with Santa Clara receiving a 9.06592% "slice of the system" allocation from Western. The power marketed by Western to Santa Clara is provided on a take-or-pay basis where Western's annual costs are allocated to preference customers based on their CVP participation percentage. Western then allocates the annual take-or-pay charges to the preference customers based on a monthly percentage that is designed to reflect the anticipated seasonal energy deliveries. Santa Clara is obligated to its preference customer share (9.06592%) of the costs associated with operating the CVP facilities. Under the successor agreement, Santa Clara's energy allocation dropped from pre-2005 levels of approximately 1,257 GWh to about 359 GWh per year delivered to Santa Clara based upon the hydrology of the CVP. For the fiscal year ended June 30, 2010, Santa Clara received 202.0 GWh of energy from Western. This amount was lower than originally forecast due to dry year conditions. Santa Clara's Don Von Raesfeld power project, which commenced operation on March 22, 2005, was designed, in part, to offset the expected decrease in energy to be received from Western under the successor agreement beginning in 2005. See "–Generating Facilities – *Don Von Raesfeld Power Plant*" above.

AES Seawest Purchased Power-Altamont Wind Project. In 2006, Santa Clara and AES Seawest Inc. entered into five-year land lease and power purchase agreements, whereby AES Seawest Inc. rents 691 acres in the Altamont area of Alameda County from Santa Clara and sells wind power generated on the rented land to Santa Clara. The AES Seawest Inc. arrangement adds approximately 1% of eligible renewable energy to Santa Clara's annual power mix. The windplant achieved commercial operation on May 3, 2007. AES Seawest Inc. operates and maintains the windplant facility which includes 200 small wind turbines (of which approximately 178 are operational), approximately 100 kW each. Santa Clara acts as the Scheduling Coordinator for the facility and schedules the output from the facility into the ISO Participating Intermittent Resource Program, and the resulting energy is then traded to the NCPA Scheduling Coordinator portfolio which serves Santa Clara's load. For the fiscal year ended June 30, 2010, Santa Clara received 25.4 GWh of energy from the Altamont Wind Project. The AES Seawest Inc. power purchase agreements are scheduled to terminate in 2011. Santa Clara is currently negotiating a renewal of such arrangement with AES Seawest Inc.

Seattle City Light ("SCL") – NCPA Exchange Agreement. NCPA, on behalf of Healdsburg, Palo Alto, Ukiah, Lodi and Roseville, has negotiated a seasonal exchange agreement with Seattle City Light ("SCL") 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. Effective May 31, 2008, Healdsburg, Palo Alto and Roseville assigned their participation percentages to Santa Clara. This will result in Santa Clara receiving 32.6 MW from SCL during the months of June through October each year, as well as obligating Santa Clara to provide 25 MW to SCL from December through mid-April each year.

G-2 Energy LLC – Wheatland Landfill. Santa Clara entered into a power purchase agreement for, and began taking delivery of energy in January 2009 from, a 1.6 MW landfill gas facility, G2, near Wheatland, California. For the fiscal year ended June 30, 2010, Santa Clara received 10.7 GWh of energy from the G2 project.

Ameresco. On May 25, 2010, Santa Clara entered into a 20-year power purchase agreement with Ameresco for landfill gas generated electricity for up to 9.2 MW from the Forward landfill in Manteca, California. On August 17, 2010, Santa Clara entered into a second 20-year power purchase agreement with Ameresco for landfill gas generated electricity for up to 5 MW from the Vasco Road landfill near Livermore, California. Both of these facilities are expected to be operational in June 2012.

Future Power Supply Resources

Lodi Energy Center. Through NCPA, Santa Clara is participating in the Lodi Energy Center project currently being undertaken by NCPA. The Lodi Energy Center will be a natural gas-fired, combined-cycle power generation plant to be located in the City of Lodi, San Joaquin County, California. The Lodi Energy Center plant is has been designed to be capable of operating at 296 MW (it has been permitted to operate at this level and it has arranged for the equipment necessary to operate at this level) but is expected to operate at 280 MW under the terms of the transmission interconnection agreement with the ISO and PG&E. The Lodi Energy Center has a designed net heat rate of 6,804 Btu/kWh at 94 degrees F. This heat rate is low in comparison to other natural gas-fired generating facilities, and means that this plant will be very efficient and will utilize less natural gas than most gas-fired plants to generate electric energy. The facility is expected to have an overall annual availability of more than 95%.

Pursuant to a Lodi Energy Center Power Sales Agreement (the "LEC Power Sales Agreement"), by and among NCPA and (i) the NCPA Member project participants: Santa Clara, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Plumas-Sierra, Ukiah and BART; and (ii) the non-NCPA Member project participants: the City of Azusa, Modesto, the Power and Water Resources Pooling Authority and CDWR (such entities other than NCPA, collectively the "LEC Project Participants"), NCPA has agreed to construct and operate the Lodi Energy Center and has sold the capacity and energy of the Lodi Energy Center to the thirteen LEC Project Participants, in accordance with their respective generation entitlement shares to the capacity and energy of the Lodi Energy Center. Each LEC Project Participant is responsible for the payment of its respective share of the costs of construction of the Lodi Energy Center.

Construction of the Lodi Energy Center commenced in August 2010 and commercial operation is expected to occur in the Summer of 2012. The estimated costs of construction of the Lodi Energy Center are approximately $375 million. To provide funding for a portion of the costs of the Lodi Energy Center, in June 2010, NCPA issued two series of revenue bonds, its $254.995 million Lodi Energy Center Revenue Bonds, Issue One, issued on behalf of eleven of the thirteen participants in the Lodi Energy Center (being all of the above-named LEC Project Participants other than Modesto and CDWR) and its $140.765 million Lodi Energy Center Revenue Bonds, Issue Two, issued on behalf of CDWR. See "Indebtedness" below. Modesto provided its own financing for its share of the estimated costs of construction of the Lodi Energy Center.

Santa Clara's participation share (approximately 72 MW) in the NCPA Lodi Energy Center will displace wholesale purchases at market prices with a cost-based resource. The capacity and energy from the Lodi Energy Center are expected to provide an efficient and cost-effective power supply that will also complement Santa Clara's existing hydroelectric and renewable resources.

See "MODESTO IRRIGATION DISTRICT – Future Power Supply Resources – *Lodi Energy Center Project*" in this Appendix A for a further description of the NCPA Lodi Energy Center.

Other Resources. Santa Clara's current resources are anticipated to provide Santa Clara with sufficient capacity reserves. In addition to its participation in the Lodi Energy Center Project, Santa Clara will generally meet additional long-term energy and capacity needs through long-term agreements with creditworthy energy providers, or through participation in other power supply projects, as required. Santa Clara is also pursuing power purchase agreements with several other new, small renewable energy projects. Santa Clara, along with NCPA, is also exploring a geothermal project and a utility-scale solar project which could result in approximately 39 MW gross of additional project capacity for Santa Clara. Santa Clara will continue to use portfolio and risk management strategies to manage its performance. See "Wholesale Power Trading" below.

Wholesale Power Trading

For a number of years, Santa Clara has used its energy and transmission resources together with its power scheduling capabilities to buy and sell energy in the western North American market. As deregulation unfolded, a greater need to manage resources on a day-to-day basis evolved, resulting in a more comprehensive approach to trading operations at Santa Clara. The principal reason for wholesale power trading is to optimize the value of the utility's assets and cost-effectively serve its retail load. For fiscal years ended June 30, 2006, 2007, 2008, 2009 and 2010 net trading revenues (wholesale power sales revenues less wholesale power purchase costs) were approximately $5.7 million, $7.6 million, $(5.6) million, $(8.4) million and $(5.9) million, respectively. The results in fiscal years 2007-08 through 2009-10 are primarily related to wholesale purchases intended for retail use that, due to recorded sales falling short of those forecasted and generation from lower costs resources subsequently becoming available, were sold back to the market at prices lower than the original purchase prices.

The Santa Clara City Council has approved a Risk Management Policy to provide policy guidance with respect to its wholesale power activities. In addition, Santa Clara has implemented procedures and regulations pursuant thereto (referred to collectively with the Risk Management Policy as the "Policy and Procedures") that are designed to establish the parameters under which trading operations may occur. The Policy and Procedures are intended to: (a) provide a common risk management infrastructure to facilitate management control and reporting; (b) create a procedure to evaluate the creditworthiness of the counterparties, and to monitor and manage the aggregate credit exposure; (c) establish a corporate culture exemplifying best practices in risk management; (d) create a mechanism to identify market-related opportunities within Santa Clara's overall exposure balance or "book" and opportunities to internalize related transactions; and (e) develop an effective, streamlined ability to timely commit to transactions. The Policy and Procedures also establish a Risk Oversight Committee (composed of the Santa Clara City Manager, the Director of Finance, the Director of Electric Utility and the Santa Clara City Attorney) and a Risk Management Committee, to oversee all proposed power purchase agreements, whether for retail or wholesale purposes.

Pursuant to the Policy and Procedures guidelines, Santa Clara has established regulations approved by the Risk Oversight Committee to govern the various functions of its trading operations. The guidelines establish, among other things, acceptable counterparty creditworthiness standards and requirements for limits on credit exposure to any individual counterparty. Most of the purchase and sale transactions entered into by the power trading operation are for 92 days or less.

Renewable Energy and Energy Efficiency

A significant portion of the energy received by Santa Clara customers comes from renewable energy. Santa Clara's power mix in calendar year 2009 (the most recent information available) consisted of 25% eligible renewable resources (after accounting for sales of renewable energy certificates back to market). When large hydroelectric resources are included, Santa Clara's power mix consisted of 43% renewable and large hydroelectric. On November 18, 2008, the Santa Clara City Council adopted revisions to Santa Clara's Environmental Stewardship and Renewable Portfolio Standard (RPS) Policy Statement. Essentially, the revised policy expands Santa Clara's commitment to renewable energy by targeting 33% of Santa Clara's energy needs to be served by renewable resources (not including "large hydro") by 2020.

Santa Clara's energy efficiency programs are separated into residential and business programs, with the majority of funding toward its largest customer segment - the business sector. Total Public Benefits Charge funds are about $8 million per year. Residential programs include rate assistance for low-income customers, energy efficiency rebates (refrigerators, whole house fans, solar attic fans, attic insulation, and variable speed pool pumps), solar electric installations, energy audits, and programs for schools and libraries. Business programs include energy audits, installation management for small companies, rebates for a wide variety of equipment (lighting, air conditioning systems, chillers, programmable thermostats, washing machines, motors, new construction, photovoltaic systems and customized installations), and design and construction assistance. Over 272 million kilowatt hours in cumulative "first year" savings have been achieved since 1998.

Interconnections, Transmission and Distribution Facilities

Santa Clara's service area is surrounded by a portion of PG&E's service area and the two systems are interconnected at two Santa Clara-owned 115 kV receiving stations – Northern Receiving Station ("NRS") and Kifer Receiving Station ("KRS"), each located within Santa Clara's city limits. In addition, Santa Clara has a 230 kV interconnection with PG&E at PG&E's Los Esteros Substation (LES) in the City of San Jose. Power received at LES is transmitted by Santa Clara approximately six miles to NRS. Santa Clara owns facilities for the distribution of electric power within its city limits (approximately 19.3 square miles), which includes approximately 29 miles of 60 kV power lines, approximately 510 miles of 12 kV distribution lines (approximately 64% of which are underground), and 24 stations. Santa Clara's electric system experiences approximately 0.5 to 1.5 hours of outage time per customer per year. This compares favorably with other utilities in California with reliability factors ranging from 1.0 to 2.5 hours outage per customer per year.

Historically, PG&E provided interconnection, partial power and other support services to Santa Clara under an interconnection agreement. Beginning March 31, 1998, the operation of the transmission facilities owned by California's investor-owned utilities, including PG&E, was undertaken by the ISO. In July 2002, FERC approved a series of agreements between Santa Clara, PG&E, the ISO and NCPA (which acts as scheduling coordinator for Santa Clara) to replace Santa Clara's interconnection agreement with PG&E and to allow Santa Clara to operate within the ISO control area.

To the extent Santa Clara requires transmission/ancillary/power services beyond those contained in other remaining existing contracts or from Santa Clara's own generating resources, Santa Clara will procure such transmission/ancillary/power services from the ISO or via the ISO's markets.

Santa Clara is unable to predict how future industry changes, especially those concerning resource adequacy requirements, renewable fuels, greenhouse gas limitations and new transmission facilities to serve potential renewable energy projects, will affect future costs for the purchase of services under its interconnection, scheduling and ISO agreements.

Employees

As of January 1, 2011, Santa Clara had approximately 134 budgeted employees for its electric utility department. All of these electric utility department employees are represented either by the International Brotherhood of Electrical Workers ("IBEW") or one of the other City employees' associations, in matters pertaining to wages, benefits and working conditions. The current labor agreements with the employee associations expire on various dates from December 22, 2012 to December 21, 2013. The current agreement with the IBEW expires on December 22, 2012. There have been no strikes or other union work stoppages at Santa Clara, including its electric utility department.

Santa Clara's permanent employees, including those in the electric utility department, are covered by the Miscellaneous Plan public agency contract between Santa Clara and the California Public Employees Retirement System ("CalPERS"). The cost of the pension is funded through bi-weekly contributions from employees and from employer contributions by Santa Clara. Santa Clara has funded the fiscal year 2009-10 actuarially required contribution (which totaled $20,257,754 for both Miscellaneous Plan and Safety Plan members for the fiscal year ended June 30, 2010), [is it possible to breakdown and show just Miscellaneous since none of Safety includes Electric Utility employees?] of which $_______ was funded by the Electric Utility. As of June 30, 2009 (the latest date for which actuarial information is available), the total actuarial accrued liability for Santa Clara was $451,521,919 for the Miscellaneous Plan, the actuarial value of plan assets was $342,041,141, and Santa Clara had an unfunded liability of $109,480,778, representing a funded ratio of 75.80%. The portion of the plan's assets allocable to the Electric Utility employees, which is part of Santa Clara's liability pool, has not been separately calculated.

The actuarial value of plan assets is determined utilizing a smoothing technique in order to dampen the effect of short term market value fluctuations on employer contribution rates. Under the smoothing technique, an expected value of assets is computed by bringing forth the prior year's actuarial value of assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The actuarial value of assets is then computed as the expected value of assets plus 1/15th of the difference between the market value of assets and the expected value of assets as of the valuation date. In no case will the actuarial value of assets be less than 60% or more than 140% of the actual market value of assets. As of June 30, 2009, the market value of the plan assets (with receivables) was $249,142,862.

In addition, Santa Clara provides certain post-employment benefits other than pensions (OPEB) to City employees, including those assigned to the Electric Utility, who retire from Santa Clara, through a single-employer defined benefit program established by the Santa Clara City Council in fiscal year 2007-08 which provides reimbursements to retirees for certain qualified expenses, subject to certain annual maximum reimbursement amounts. In fiscal year 2007-08, Santa Clara established an irrevocable exclusive multi-employer benefit trust which is administered by Public Agency Retirement Services. Santa Clara has funded the fiscal year 2009-10 actuarially required contribution. Its contribution for fiscal year 2009-10 was $2,081,000, of which $______ was funded by the Electric Utility. As of June 30, 2008 (the latest date for which actuarial information is available), the total actuarial accrued liability for Santa Clara was $27,902,000, the actuarial value of plan assets was $4,502,000, and Santa Clara had an unfunded liability of $23,400,000, representing a funded ratio of 16.1%.

Additional information regarding Santa Clara's retirement plans and other post-employment benefits can be found in the City of Santa Clara's comprehensive annual financial reports, which may be obtained at *http://www.santaclaraca.gov/*.

Rates and Charges

The Santa Clara City Council is authorized by the City Code of Santa Clara to set charges, pay for and supply all electric energy and power to be furnished to customers according to such schedules, tariffs, rules and regulations as are adopted by the Santa Clara City Council. The authority of Santa Clara to impose and collect rates and charges for electric power and energy is not subject to the regulatory jurisdiction of the California Public Utilities Commission ("CPUC") or any other regulatory authority. For the calendar years 2001-2005, Santa Clara rates were unchanged and averaged 7.8 cents per kWh. In December 2005, the Santa Clara City Council adopted a 5% rate increase effective January 2006, and a further 5% increase effective July 2006. The primary reason for this increase was the rise in cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western. For calendar year 2007, Santa Clara maintained rates at year-end 2006 levels. Santa Clara was able to avoid a rate increase due to its significant cash reserves, which are permitted to be included in satisfying its rate covenants to its bondholders. On December 4, 2007, the Santa Clara City Council approved a rate increase of 3% in January 2008 and 3% in January 2009. On December 8, 2009, the Santa Clara City Council approved a rate increase of 7% in January 2010 and 7% in January 2011. See "Cash Reserves" below.

Largest Customers

The ten largest customers of Santa Clara's electric utility department, in terms of kWh sales for the fiscal year ended June 30, 2010 accounted for 36.4% of total kWh sales and 31.9% of revenues. Santa Clara is heavily dependent upon its industrial customers, which comprise approximately 87% of its load and 87% of its revenues (in fiscal year 2009-10). For reference, Santa Clara's industrial category includes all customers using more than 8,000 kWh per month. For many years, Santa Clara has been home to a number of the world's best known "high tech" firms involved in the design and production of computers and software. In the past few years, some of these firms have shifted production away from Santa Clara; however, this shift has been more than offset by the development of numerous data centers established to serve the data needs of corporate offices and of internet-related businesses.

To help retain its industrial customers, and thus assure the stability of Santa Clara's electric sales and revenue, Santa Clara has entered into power purchase contracts with a number of its largest customers. Currently, twelve customers, representing approximately 34% of Santa Clara's electric utility load and approximately 30% of annual sales revenues, are under contract. The contracts have varied terms, with expirations ranging from 2011 through 2014. No existing customer contract has a term exceeding five years.

Customers, Energy Sales, Revenues and Demand

The average number of customers, kWh sales and revenues derived from sales, by classification of service, and peak demand during the past five fiscal years, are listed below.

CITY OF SANTA CLARA
ELECTRIC UTILITY DEPARTMENT
CUSTOMERS, SALES, REVENUES AND DEMAND
(Fiscal Year Ended June 30)

	2006	2007	2008	2009	2010
Number of Customers:					
Residential	42,139	42,759	43,182	43,618	43,989
Commercial	5,838	5,867	5,862	5,900	5,957
Industrial	1,932	1,932	1,931	1,916	1,860
Other	543	553	558	559	558
Total	50,452	51,111	51,533	51,993	52,364
Kilowatt-hour Sales (000):					
Residential	234,464	243,747	246,115	245,884	247,202
Commercial	87,815	87,960	85,396	84,526	84,660
Industrial	2,263,441	2,455,735	2,481,277	2,492,849	2,411,087
Other	20,002	21,076	22,556	22,363	21,247
Total	2,605,722	2,808,518	2,835,344	2,845,622	2,764,196
Charges from Sale of Energy (000)[1]:					
Residential	$ 18,824	$ 21,063	$ 21,682	$ 22,270	$ 23,418
Commercial	9,987	10,752	10,612	10,788	11,265
Industrial	172,473	200,332	205,753	215,688	222,071
Other	1,852	2,031	2,130	2,192	2,206
Total[2]	$203,136	$234,178	$240,177	$250,938	$258,960
Peak Demand (MW)	461.2	486.5	479.6	489.9	459.8

(1) Differs from Operating Revenues in Financial Operating Results and Balance Sheet information due to: (i) timing differences in accruals and billings; and (ii) exclusion of non-consumption based revenues.
(2) Includes public benefits charge and grid management charge revenues.

Source: City of Santa Clara.

Capital Requirements

Santa Clara expects net capital requirements for the current and next four fiscal years to aggregate up to $80 million. Such improvements include distribution system improvements and replacements of approximately $50 million, including several new distribution substations and significant upgrades to its internal bulk distribution loops and distribution feeders. These distribution facilities are needed to meet increased capacity requirements of new and existing customers. They are expected to be financed through a combination of load development fees, direct customer contributions, funds from Santa Clara's available cash reserves, and electric revenues.

Indebtedness

Electric Revenue Bonds. As of February 1, 2011, Santa Clara had outstanding electric revenue bonds in the aggregate principal amount of $218.745 million, payable from net revenues of the electric system (as adjusted to take into account available reserves). Such outstanding electric revenue bonds are comprised of $83.390 million aggregate principal amount of outstanding Electric Revenue Bonds, Series 2003 A, $49.655 million aggregate principal amount of outstanding Variable Rate Demand Electric Revenue Bonds, Series 2008 A (which Santa Clara [expects to refund][refunded] with its $54.830 million aggregate principal amount of fixed rate electric revenue bonds in March 2011) and $85.700 million aggregate principal amount of outstanding Variable Rate Demand Electric Revenue Bonds, Series 2008 B (the "Series 2008 B Bonds").

The Series 2008 B Bonds are variable rate obligations secured by a letter of credit. The letter of credit for the Series 2008 B Bonds was provided by Dexia Crédit Local, acting through its New York Branch ("Dexia"), and has a scheduled expiration date of May 29, 2011. Santa Clara expects to replace the letter of credit for the Series 2008 B Bonds with a substitute letter of credit and has received a commitment from Bank of America, N.A. for such substitute letter of credit. Santa Clara has entered into a reimbursement agreement with Dexia in connection with the issuance of the letter of credit for the Series 2008 B Bonds, and expects to enter into a reimbursement agreement with Bank of America, N.A. upon the issuance of the substitute letter of credit, pursuant to which it is obligated to repay the banks for amounts drawn under the letter of credit. The interest rate payable by Santa Clara for unreimbursed draws under the letter of credit may be considerably higher than the interest rate on the Series 2008 B Bonds. While Santa Clara may attempt in such event to refinance the Series 2008 B Bonds to avoid this additional debt burden, there can be no assurance that Santa Clara will have access to the debt markets. Prior to the issuance of the Series 2008 B Bonds, Santa Clara entered into an interest rate swap agreement with Bear Stearns Capital Markets Inc., which agreement has been novated to JPMorgan Chase Bank, N.A. (the "Swap Provider"). Under the interest rate swap agreement, Santa Clara is obligated to make payments to the Swap Provider calculated on the basis of a fixed rate of 3.470% while it is to receive from the Swap Provider payments based upon 65% of the one month London Interbank Offered Rate. Santa Clara's obligation to make any net regularly scheduled payments due to the Swap Provider under the interest rate swap agreement is payable from net revenues on a parity with its outstanding electric revenue bonds. Under certain circumstances, the interest rate swap agreement may be terminated and Santa Clara may be required to make a termination payment to the Swap Provider. Any such termination payment owed by Santa Clara would be payable from net revenues of the electric system subordinate to Santa Clara's outstanding electric revenue bonds.

Joint Powers Agency Obligations. As previously discussed, Santa Clara participates in several joint powers agencies, including NCPA, M-S-R PPA, M-S-R EA, NCPA and TANC, which have issued indebtedness to finance the costs of certain projects on behalf of their respective project participants. Obligations of Santa Clara under its agreements with respect to M-S-R PPA, NCPA and TANC constitute operating expenses of the electric system payable prior to any of the payments required to be made on Santa Clara's electric revenue bonds described above. Agreements with NCPA, M-S-R PPA, NCPA and TANC are on a "take-or-pay" basis, which requires payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Certain of these agreements contain "step-up" provisions obligating Santa Clara to pay a share of the obligations of a defaulting participant. As described herein, Santa Clara also participates in M-S-R EA and has certain payment obligations in connection therewith which constitute operating expenses of the electric system. However, Santa Clara's payment obligation to M-S-R EA is with respect to actual quantity of natural gas delivered each month on a take-and-pay (rather than take-or-pay) basis. Responsibility for bond repayment is non-recourse to Santa Clara. See "Power Supply Resources – Joint Powers Agency Resources – *M-S-R Energy Authority–Gas Prepay*" above.

Santa Clara's participation and share of debt service obligation (without giving effect to any "step-up" provisions) for the NCPA, M-S-R PPA, NCPA and TANC projects in which it participates are shown in the following table.

CITY OF SANTA CLARA
ELECTRIC UTILITY DEPARTMENT
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
(Dollar Amounts in Millions)
(as of February 1, 2011)

	Outstanding Debt[2]	Santa Clara Participation[3]	Santa Clara Share of Outstanding Debt[2]
M-S-R PPA			
San Juan Unit No. 4	$323.1	35.00%	$113.1
Southwest Transmission Project	39.4	35.00	13.8
NCPA			
Geothermal Project	35.6	44.39	15.8
Calaveras Hydroelectric Project	449.5	37.02[4]	166.4
Lodi Energy Center, Issue One	255.0	46.16	117.7
TANC			
Bonds	421.4	20.84[5]	87.8
TOTAL*	$1,524.0		$514.6

* Columns may not add to totals due to independent rounding.
(1) Excludes M-S-R EA as described above.
(2) Principal only. Does not include obligation for payment of interest on such debt.
(3) Participation based on actual debt service obligation. Participation obligation is subject to increase upon default of another Participant. Such increase shall not exceed, without written consent of a non-defaulting participant, an accumulated maximum of 25% of such non-defaulting participant's original participation.
(4) Includes 1.16% additional share purchased from other NCPA participants.
(5) As described herein, Santa Clara's actual obligation differs slightly from this percentage due to varying shares of certain series of TANC bonds relating to each TANC member-participant's taxable portion and each TANC member-participant's participation or non-participation in acquisition of assets from Vernon.

Source: City of Santa Clara Electric Utility Department.

For the fiscal year ended June 30, 2010, Santa Clara's obligation for debt service on its joint powers agency aggregated obligations was approximately $46.6 million. Debt service on joint powers agency obligations is expected to be approximately $37.4 million in fiscal year 2010-11, and is expected range from a high of approximately $54.3 million to a low of approximately $7.9 million in each fiscal year through 2039-40. This projection assumes that there are no future debt issuances, that swap counterparties on interest rate hedges continue to perform (all of Santa Clara's variable rate joint powers agency debt obligations are hedged). Santa Clara manages the total amount of variable rate debt exposure for its electric utility (including both direct and joint powers agency debt), and, by policy, has targeted up to approximately 25% as the appropriate variable rate exposure. Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at a maximum rate substantially in excess of the current interest rates on such variable rate debt obligations. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity agreements may result in the acceleration of scheduled payment of the principal of such variable rate joint powers agency obligations. In connection with certain of such joint power agency obligations, the respective joint powers agency has entered into interest rate swap agreements relating thereto for the purposes of substantially fixing the interest cost with respect thereto. There is no guarantee that the floating rate payable to the respective joint powers agency pursuant to each of the interest rate swap agreements relating thereto will match the variable interest rate on the associated variable rate joint powers agency debt obligations to which the respective interest rate swap agreement relates at all times or at any time. Under certain circumstances, the swap providers may be obligated to make payments to the applicable joint powers agency under their respective interest rate swap agreement that is less than the interest due on the associated variable rate joint powers agency debt obligations to which such interest rate swap agreement relates. In such event, such insufficiency will be payable from the obligated joint powers agency members (a corresponding amount of which proportionate to its debt service obligations to such joint powers agency could be due from Santa Clara). In addition, under certain circumstances, each of the swap agreements is subject to early termination, in which event the joint powers agency could be obligated to make a substantial payment to the applicable swap provider (a corresponding amount of which proportionate to its debt service obligations to such joint powers agency could be due from Santa Clara).

Cash Reserves

Santa Clara maintains cash reserves for a number of reasons, including operating cash requirements, construction cash requirements, dealing with the cost impacts of dry hydroelectric conditions, gas and electric market volatility, and allowing Santa Clara the flexibility to increase rates on a scheduled basis. The Cost Reduction Fund was established to manage the cost impacts of dry year hydroelectric conditions and gas and electric market volatility, as well as the scheduling of rate increases. As of June 30, 2010, there was approximately $84.2 million in the Cost Reduction Fund. As of December 31, 2010, the balance of the Cost Reduction Fund was transferred to the Rate Stabilization Fund (as a subaccount therein) described below.

In addition to the Cost Reduction Fund, Santa Clara established a Rate Stabilization Fund (originally, the "Rate Stabilization Fund Reserve Account" established pursuant to Resolution No. 6106 adopted by the Santa Clara City Council on January 16, 1996) (the "Rate Stabilization Fund"). Amounts in the Rate Stabilization Fund are available to pay costs of the electric utility subject to certain terms and conditions. As of June 30, 2010, approximately $25.0 million was on deposit in the Rate Stabilization Fund. Further, in fiscal year 2001-02, Santa Clara established a policy of maintaining an additional cash reserve in the minimum amount of $65 million in operating cash which is equal to approximately two months' retail and wholesale cash requirements. As of June 30, 2010, Santa Clara had unrestricted operating cash reserves of $65.3 million. In addition, Santa Clara had $54.9 million of cash reserves designated for construction purposes. Thus, as of June 30, 2010, Santa Clara's electric utility had restricted and unrestricted cash reserves totaling approximately $229.3 million.

Collectively, these reserves are designed to help insulate Santa Clara from market volatility. In addition, Santa Clara's bond indentures permit the use of unrestricted cash balances and reserves (including prior to December 31, 2010, the Cost Reduction Fund and the Rate Stabilization Fund, and subsequent to December 31, 2010, the Rate Stabilization Fund) to satisfy Santa Clara's rate covenants with its bond holders. In fiscal year 2005-06, the Santa Clara City Council authorized the transfer of $57.1 million of unrestricted cash balances and reserves, including $36.5 million to pay for settlement costs of litigation arising out of the Enron bankruptcy, $15.9 million for operating expenses and $4.7 million to pay for certain non-bond funded capital expenditures and improvements. In fiscal year 2006-07, the Santa Clara City Council authorized the use of $27.7 million of unrestricted cash balances and reserves, of which $20.7 million was for operating expenses and $7.0 million was for certain non-bond funded capital expenditures and improvements. In fiscal year 2007-08, the Santa Clara City Council authorized the use of $67.4 million of unrestricted cash balances and reserves, including $11.2 million to pay for the redemption of Series 1985 A, B and C Bonds, $28.9 million for operating expenses and $27.3 million to pay for certain non-bond funded capital expenditures and improvements. The transfer to operating revenues for fiscal year 2007-08 was higher than originally anticipated due to dry year conditions because lower-cost hydroelectric generation had to be replaced with power from higher cost resources. In fiscal year 2008-09, the Santa Clara City Council authorized the use of $65.3 million of unrestricted cash balances and reserves, including $50.2 million for operating expenses and $15.1 million to pay for certain non-bond-funded capital extensions and improvements. The 2009-10 budget anticipated (after taking into account the projected additional revenue from the budgeted 7.0% rate increase for January 2010 as described below), and the Santa Clara City Council authorized, the use of a further $17.4 million of drawdown of unrestricted cash balances and reserves for operating expenses.

Santa Clara has determined that it is appropriate to use a portion of its unrestricted cash balances and reserves to stabilize or subsidize its electric rates in the near term and to increase rates when appropriate. In December 2007, the Santa Clara City Council adopted a 3% rate increase effective January 2008, and a 3% rate increase effective January 2009. These rate increases were designed to provide that operating revenues would better reflect then-current operating costs, near term capital requirements would be funded primarily from cash reserves, and the Cost Reduction Fund would remain above $120 million, which Santa Clara has determined to be a prudent minimum level. In the May 2008 Budget Study Sessions with City Council, and the June Budget Adoption Public Hearing, staff advised City Council that staff would return to City Council with recommendations for the year 2010 after a thorough review of the financial performance and statements of the utility for fiscal year 2007-08.

Continuing dry year conditions in fiscal years 2007-08 and 2008-09 resulted in drawing down the Cost Reduction Fund (now a part of the Rate Stabilization Fund) below the $120 million minimum target as of June 30, 2009. This result confirmed the need for rate increases beginning in 2010. Santa Clara's adopted budget for the 2010-11 fiscal year reflected a 7% increase in January 2010 and a 7% increase in January 2011. These increases, totaling 14.5% on a cumulative basis, are projected to produce revenues sufficient to cover future operating expenses and to restore the Cost Reduction Fund balance (now a part of the Rate Stabilization Fund) to the $120 million level by the end of the 2014-2015 fiscal year. 2014-2015 fiscal year. The Santa Clara City Council approved both budgeted rate increases by resolution at its December 8, 2009 City Council meeting. It is important to note that the impact of such increase or increases could be affected by future operating conditions, including factors outside the control of Santa Clara. See "Summary of Financial Operating Results" and "Rates and Charges" herein.

The Santa Clara City Council and the Redevelopment Agency of the City of Santa Clara are in the process of exploring the possibility of a "public-private partnership" in order to construct a football stadium in the vicinity of Great America Parkway and Tasman Drive in Santa Clara in connection with a potential relocation of the San Francisco 49ers professional football team to this site. On April 24, 2007, representatives of the San Francisco 49ers presented a stadium proposal to the Santa Clara City Council, the Redevelopment Agency of the City of Santa Clara, Santa Clara City staff and the public. In addition, Santa Clara has retained consultants to undertake a review of the economic analysis presented by the San Francisco 49ers to support such a project. These activities have been widely reported in the local media. A retired senior member of the Santa Clara management team and a former City Councilmember wrote a letter to the media suggesting that certain Santa Clara electric utility reserves maintained in the Cost Reduction Fund be used as a potential funding source for Santa Clara's contribution to a stadium project. In the opinion of the City Attorney of Santa Clara, any such application of certain electric utility funds to various aspects of a stadium project would require an amendment to the Santa Clara City Charter approved by a majority vote of the electorate. On January 9, 2007, the Santa Clara City Council adopted "Guiding Principles for Use in the Evaluation of the Feasibility of a Proposed Stadium." These guiding principles included the principle to "Maintain integrity of all Santa Clara's funds per the City Charter (utility funds may only be used for utility purposes: electric, water and sewer)."

On February 9, 2010, the Santa Clara City Council approved a resolution calling and giving notice of a special municipal election to be held on Tuesday, June 8, 2010 for a vote on a voter-initiative ballot measure. Such voter-initiative passed and it establishes the requirements for any ground lease of Santa Clara property for the proposed stadium project. In addition, an Environmental Impact Report for the proposed stadium project has been approved. On February 22, 2011, the City Council authorized the execution of a joint powers agreement with the City redevelopment agency in order to authorize the creation of the Santa Clara Stadium Authority, which joint powers agency is expected to be the lessee of any City property for the proposed stadium project and potential owner of the proposed stadium facility. The City is unable to predict at this time whether any stadium project will proceed. To the extent the stadium project does proceed, it is not expected to be completed before 2015. In the event the stadium project does proceed, it is expected that, in connection with any such project, the electric utility will undertake the relocation of its Tasman substation, currently located near the proposed stadium site. The estimated cost of such substation relocation is approximately $20 million.

Service Area

The main businesses in Santa Clara are manufacturing and industrial. There are numerous companies that manufacture electronic components, communications equipment, computer systems, electronic games and similar products, and general items such as fiberglass, paper and chemicals. As shown in the following table, these firms are among the largest employers in Santa Clara as of June 30, 2010.

CITY OF SANTA CLARA
LARGEST EMPLOYERS
(as of June 30, 2010)

Employer	Business	Number of Employees
Intel Corporation	Semiconductor Devices (Mfg.)	5,734
Sun Microsystems, Inc.	Computer Related Services	2,700
Applied Materials	Nano Technology Mfg Services	3,746
Agilent Technologies	Electronic and Bio-Analytical Measurement	1,384
BAE Systems Land & Armaments	Defense and Aerospace	1,914
National Semiconductor Inc.	Semiconductor Devices (Mfg.)	1,500
Kaiser Permanente	Healthcare	5,630
NVIDIA Corp.	Semiconductors	2,657
Santa Clara University	Higher Education	1,350
McAfee Inc.	Security Software and Devices	643
Atheros Communications	Semiconductor Devices	400

Source. Business Journal Book of Lists.

Due to the nature of local industry, with its heavy emphasis on electronics, aerospace and research, Santa Clara has attracted many professional people and industrial workers possessing skills well above the average.

The San Jose Labor Market, as defined by the State Employment Development Department, includes all cities within Santa Clara County. This area is a highly developed industrial, research, and educational center of employment for a labor force that ranks well above the average in educational attainment and income. The following table presents the annual average wage and salary employment figures by industry classification for Santa Clara County for the years 2005 through 2009.

SANTA CLARA COUNTY
EMPLOYMENT BY INDUSTRY
ANNUAL AVERAGES
(In Thousands)

	2005	2006	2007	2008	2009(1)
Farm	3,800	3,800	3,900	3,700	3,700
Natural Resources and Mining	200	300	300	300	200
Construction	42,700	44,900	45,500	42,800	32,900
Manufacturing	168,000	160,600	163,800	165,200	153,500
Wholesale Trade	35,400	37,800	39,400	39,400	35,200
Retail Trade	82,200	84,000	84,600	82,700	77,200
Transportation, Warehousing and Utilities	12,800	12,700	13,300	13,300	11,800
Information	35,200	37,400	39,500	42,200	41,000
Financial Activities (Finance, Insurance, Real Estate)	36,000	36,700	36,800	34,200	31,400
Services	645,300	670,200	686,900	693,300	656,800
Government	92,900	93,600	94,300	94,900	95,000
TOTAL	1,154,500	1,182,000	1,208,300	1,212,000	1,138,700

(1) Latest full year information available.

Source: California Employment Development Department.

According to the California Employment Development Department, Santa Clara's unemployment rate was 10.3% for the year 2010. The following table sets forth certain information regarding employment in Santa Clara from 2006 through 2010.

CITY OF SANTA CLARA
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
2006 TO 2010

	2006	2007	2008	2009	2010
Labor Force	53,500	54,900	56,500	56,500	56,296
Employment	51,300	52,500	53,400	50,800	50,508
Unemployed	2,200	2,300	3,10	5,700	5,788
Unemployment Rate	4.1%	4.3%	5.4%	10.1%	10.3%

Source: California Employment Development Department.

Shown below is certain population data for Santa Clara, the County of Santa Clara and the State:

CITY OF SANTA CLARA, COUNTY OF SANTA CLARA,
STATE OF CALIFORNIA POPULATION
(1970, 1980, 1990, 2000 as of April 1;
2005-2010 as of January 1)

	City of Santa Clara	County of Santa Clara	State of California
1970	86,118	1,065,313	19,971,069
1980	87,700	1,295,071	23,668,562
1990	93,613	1,497,577	29,760,021
2000	102,800	1,698,800	33,873,086
2005	108,895	1,755,453	36,675,346
2006	111,019	1,776,586	37,114,598
2007	114,066	1,805,314	37,559,440
2008	115,503	1,837,075	38,049,462
2009	117,242	1,857,621	38,292,687
2010	118,830	1,880,876	38,649,090

Sources: 1970, 1980, 1990 and 2000 figures from U.S. Bureau of Census. Other figures from State Department of Finance.

Transportation and Educational Facilities

Santa Clara is served by freeways, interstate and state highways, expressways, local and national bus service and trucking lines. Passenger rail service is provided by Altamont Commuter Express and Amtrak. In addition, the Peninsula District Joint Powers Board–Caltrain, which provides commuter service that connects South Santa Clara County with San Francisco, and inter-urban rail service between San Jose and Sacramento, has two stations in Santa Clara. Freight rail service is provided by the Union Pacific Railroad. Air transportation is available at the San Jose International Airport, which is two miles from downtown Santa Clara and at San Francisco and Oakland International Airports; each located approximately 40 miles to the north. The Santa Clara Valley Transportation Authority light rail system runs along the Santa Clara Convention Center south to the San Jose Convention Center and south San Jose, and proceeds north through the cities of Sunnyvale and Mountain View.

Public education from kindergarten through the community college level is offered in Santa Clara. Santa Clara is also the location of Santa Clara University. San Jose State University and Stanford University are located nearby.

Litigation

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining Santa Clara in the execution or delivery of, or in any way contesting or affecting the validity of any proceedings of Santa Clara taken with respect to the Power Sales Agreement related to Santa Clara.

There is no litigation pending, or to the knowledge of Santa Clara, threatened, questioning the existence of Santa Clara, or the title of the officers of Santa Clara to their respective offices. There is no litigation pending, or to the knowledge of Santa Clara, threatened, questioning or affecting in any material respect the financial condition of Santa Clara's electric system.

Present lawsuits and other claims against Santa Clara's electric utility department are incidental to the ordinary course of operations of the electric utility department and are largely covered by Santa Clara's self insurance program. In the opinion of Santa Clara's management and, with respect to such litigation, the Santa Clara City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position of Santa Clara.

California Energy Market Refund Dispute. The IOUs—PG&E, Edison and San Diego Gas & Electric Company ("SDG&E")—and the State of California, the California Electricity Oversight Board ("EOB") and the CPUC have been pursuing claims for refunds against Santa Clara and other power-producing municipally owned utilities ("MOUs"). Santa Clara, along with other similarly situated MOUs, sold electricity into the ISO and/or California Power Exchange (the "PX") markets during the California energy crisis of 2000 and 2001. At that time the price of electricity was uncharacteristically high.

In July 2001, after initially concluding that it had no authority to require refunds of MOUs, FERC issued an order establishing an evidentiary hearing for the purpose of determining the amount of refunds, if any, due from entities selling into the ISO and PX organized spot markets from October 2, 2000 through June 20, 2001. During that time period, Santa Clara acted as both a seller and buyer in the PX market. The MOUs sought relief from the FERC order in the courts. The MOU position, that FERC had during that time period no jurisdiction to order refunds from Santa Clara, was upheld by the Ninth Circuit Court of Appeals on September 6, 2005, reversing FERC's prior order. *Bonneville Power Administration v. FERC*, 422 F.3d 908 (9th Cir., 2005). The Supreme Court denied the PG&E petition for review by *certiorari* on December 10, 2007.

In response to the *Bonneville* decision, however, in March 2006, the IOUs and the EOB filed lawsuits against Santa Clara and other MOUs (including NCPA) in the United States District Court, and when that proceeding was dismissed, the IOUs and the EOB re-filed the same claims against Santa Clara and such other MOUs in California state court in Los Angeles County. *Pacific Gas and Electric Co. v. Arizona Electric Power Cooperative, Inc*., L.A. Superior Court No. BC369141. This State court action remains pending, and has been vigorously defended by Santa Clara, among others.

In addition, Santa Clara is involved in a separate dispute with PG&E with regard to sales between Santa Clara, PG&E and the ISO during the same 2000-2001 time period, a portion of which was litigated before the bankruptcy court administering PG&E's bankruptcy.

Santa Clara engaged in separate settlement discussions with the plaintiffs, which resulted in the execution of a binding term sheet on October 21, 2010, outlining the terms of a final resolution of all of these claims, including the separate disputes between Santa Clara and PG&E discussed above. The terms include a mutual release of all refund claims by the parties executing the term sheet, and it also requires the plaintiffs to assume any liability Santa Clara might ultimately have to any other parties in the refund proceeding. Accordingly the settlement resolves all claims against Santa Clara seeking refunds for sales it made to the ISO and PX markets during the 2000-2001 time period.

In accordance with the binding term sheet, the parties negotiated and executed a complete settlement agreement on December 21, 2010, which was filed with FERC for approval on December 21, 2010. Using the time involved for FERC's review of similar settlements as a guide, a FERC order addressing the settlement is anticipated in March of 2011, but there is no deadline for FERC to act. While the state court litigation trial commenced on November 1, 2010, a motion to sever Santa Clara from that schedule pending execution and approval of the settlement was granted by the state court on October 27, 2010. Accordingly, Santa Clara's disputes are not being addressed in the active litigation, pending completion of the settlement.

While no assurances can be given that the final settlement agreement will be approved by FERC, the settlement agreement was executed by, and is binding upon, Santa Clara, the IOUs, the State of California acting through the State Attorney General, and CDWR (on behalf of the California Energy Resources Scheduling Division), and the CPUC. These entities represent the great majority of the pending refund claims, and FERC has approved all similar settlements presented by this group of claimants. Thus Santa Clara anticipates that the resolution outlined in the settlement agreement is reasonably likely to occur.

On the assumption that the settlement agreement is accepted by FERC, the net cost to Santa Clara will be approximately $7.6 million. However, the complexity and uncertainty of these proceedings are such that Santa Clara's exposure potentially could be significantly higher or lower if the settlement is not accepted by FERC.

Condensed Operating Results and Selected Balance Sheet Information

The following table sets forth summaries of income and selected balance sheet information of Santa Clara's electric utility for the five fiscal years ended June 30, 2010. This information was prepared by Santa Clara on the basis of its audited financial statements for such years.

CITY OF SANTA CLARA
ELECTRIC SYSTEM
SUMMARY OF FINANCIAL OPERATING RESULTS
(thousands of dollars)

	Fiscal Year Ending June 30,				
	2006	**2007**	**2008**	**2009**	**2010**
Summary of Income					
Operating Revenues[1]	$202,193	$229,319	$240,093	$243,889	$252,518
Operating Expenses:					
Salaries, Wages and Benefits	16,486	17,329	17,036	18,402	20,060
Materials, Supplies and Services[2]	215,706	217,941	241,402	263,690	224,253
Depreciation	17,076	17,296	17,602	17,867	17,864
Total Operating Expenses	$249,268	$252,565	$276,041	$299,959	$262,177
Operating Income (Loss)	(47,075)	(23,246)	(35,948)	(56,071)	(9,659)
Other Income[3]	29,496	41,026	29,629	34,354	26,921
Interest Expense	(12,127)	(12,086)	(11,741)	(9,860)	(8,547)
Wholesale Power Sales	255,188	204,723	172,404	102,480	67,840
Wholesale Power Purchases	(249,501)	(197,076)	(177,973)	(110,879)	(73,727)
Other Expenses	(3,152)	(4,369)	(6,240)	(7,518)	(8,907)
Equity (Loss) in Joint Power Agencies[4]	2,921	3,913	(1,486)	1,223	1,736
Net Income Before Operating Transfers and Extraordinary Items	$(24,250)	$ 12,885	$(31,356)	$(46,270)	$ (4,343)
Selected Balance Sheet Information (as of June 30)					
Cash Designated for Construction	$ 44,509	$ 50,564	$ 71,757	$ 64,017	$54,857
Rate Stabilization Fund	25,000	25,000	25,000	25,000	25,000
Cost Reduction Fund	221,365	233,726	158,733	98,739	84,207
Other Unrestricted Cash	119,949	72,026	77,037	72,684	65,282
Total Pooled & Cash Investments	$410,823	$381,317	$332,527	$260,440	$229,346

* Columns may not add to totals due to rounding.

(1) See "Rates and Charges" above. Exclude public benefit charge revenues.

(2) Includes purchased power payments and payments to joint power agencies. Also includes payment of a portion of gross revenues to City's General Fund as contribution in lieu of taxes which payment is subordinate to the payment of other operating expenses and debt service. Per the Santa Clara City Charter, up to 5% of gross revenues (not including revenues from wholesale transactions) from the Electric Utility is paid to Santa Clara General Fund each year. In fiscal years 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10, such contributions in lieu were $11,115,000, $12,856,000, $12,724,000, $13,037,000 and $13,448,000, respectively.

(3) Primarily represents interest income, public benefit charge revenues, grants, rents, and other non-recurring miscellaneous income. In 2006, includes amount for SCS disputed charges. In 2007, includes gain on retirement of fixed assets.

(4) Net loss in fiscal year 2007-2008 as a result of NCPA refunds to participants.

Source: City of Santa Clara.

Rate Covenant Compliance Under Electric Revenue Bond Indenture

The electric revenue bond indenture pursuant to which Santa Clara's electric revenue bonds are issued requires Santa Clara to produce revenues of the electric utility in each year such that adjusted net revenues (as defined in the electric revenue bond indenture) will be sufficient to pay debt service on all electric revenue bonds and parity debt for such fiscal year. The electric revenue bond indenture permits amounts in the Rate Stabilization Fund or (prior to December 31, 2010) other unrestricted funds of the electric enterprise to be used to satisfy the rate covenant. The City has elected to use such unrestricted funds for such purpose as described in "Cash Reserves" above. Santa Clara has satisfied its rate covenant in each year as shown below. In addition to operating expenses and debt service, the electric utility has other obligations which it is required to satisfy. Such obligations include payments in lieu of taxes as well as capital expenditures not otherwise financed with bond proceeds, which obligations are, in accordance with the Santa Clara City Charter, payable subordinate to the payment of debt service on the electric revenue bonds and parity debt. Capital expenditures not financed with bond proceeds are funded from a variety of sources, including reserves, developer contributions and electric system revenues. See "Cash Reserves" above. The coverage numbers shown below differ from those previously reported, and they more accurately reflect the effects of wholesale transactions, the discharge of Santa Clara's senior lien electric revenue bond indenture in fiscal year 2007-08, the priority of payments under the Santa Clara City Charter and the terms of the electric revenue bond indenture.

CITY OF SANTA CLARA
RATE COVENANT COMPLIANCE UNDER
ELECTRIC REVENUE BOND INDENTURES
($ in 000s)

	Fiscal Year Ending June 30,				
	2006	**2007**	**2008**	**2009**	**2010**
Debt Service Coverage:					
Adjusted Revenues[1]	$282,825	$280,338	$278,945	$297,506	$274,705
Adjusted Operating Expenses[2]	224,229	226,782	251,955	276,574	239,773
Adjusted Net Revenue Available for Debt Service	$ 58,595	$ 53,556	$ 26,990	$ 20,932	$ 34,932
Debt Service on Electric Revenue Bonds[3]	$ 22,562	$ 23,379	$ 26,089	$ 14,643	$ 12,293
Adjusted Revenues in Excess of Debt Service Requirements	$ 36,033	$ 30,177	$ 901	$ 6,289	$22,639
Debt Service Coverage Ratio[4]	2.60	2.29	1.03	1.43	2.84

* Numbers may not add up due to independent rounding.

(1) Adjusted Revenue includes operating revenues and non-operating revenues (other income excluding unrealized gains or losses and developer contributions), and net of wholesale transactions, excluding equity or loss on joint powers agency projects accounted for on the equity method of accounting. Also includes Cost Reduction Fund transfers related to operating expenses. In fiscal years 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10, such fund transfers were $49,218,000, $15,819,000, $18,230,000, $40,544,000 and $6,240,000, respectively. See "Rates and Charges" and "Cash Reserves" above.

(2) Adjusted Expenses are operating and other expenses, including joint powers agency obligations, less depreciation and amortization and less contribution-in-lieu to the General Fund.

(3) Includes letter of credit fees relating to variable rate electric revenue bonds. Prior to fiscal year 2008-09 also includes debt service on senior lien bonds prior to their discharge.

(4) Coverage of electric revenue bonds only. Excludes joint powers obligations which are included in Adjusted Operating Expenses.

Source: City of Santa Clara.

CITY OF REDDING

Introduction

Redding is a general law city in the State of California. As a general law city, Redding has the power to furnish electric utility service to its inhabitants. In connection therewith, Redding has the powers of eminent domain, to contract, to construct works, to fix rates and charges for commodities or services furnished and to incur indebtedness. Specifically, the Redding City Council is authorized by the Redding Municipal Code to establish electric utility rates for all electric utility subscribers, and any rate changes are not subject to regulatory agency review.

Redding provides electric utility service through an electric utility department (the "Electric Utility Department"). The legal responsibilities and powers of the Electric Utility Department, including the establishment of rates and charges, are exercised through the five member Redding City Council. The members of the Redding City Council are elected Redding-wide for staggered four year terms. The Electric Utility Department is under the direction of the Director of the Electric Utility Department who is appointed by the Redding City Manager.

Since 1921, Redding has provided electric service within its boundaries. For the fiscal year ended June 30, 2010, Redding served approximately 43,035 customer accounts, had total sales of 770.0 million kWh and a peak demand of 248.1 MW.

To provide electric service within its service area (which is coterminous with Redding's corporate city boundaries), Redding owns and operates an electric system that includes generation, transmission and distribution facilities. Redding also purchases power and transmission service from others. In addition, Redding provides normal city services to its inhabitants such as police and fire protection and water and sewer service.

Only the revenues from the Redding Electric Utility Department will be available to pay amounts owed by Redding under the Power Sales Agreement.

Redding's main offices are located at 777 Cypress Avenue, Redding, California 96001, (530) 339-7383. A copy of the most recent annual report of Redding and its Electric Utility Department (the "Annual Report") may be obtained from Mark P. Haddad, Financial Manager, at the above address and phone number, and is also available on Redding's website at *www.ci.redding.ca.us/finance*. The Annual Report is incorporated herein by this reference. However, the information presented on such website or referenced therein other than the Annual Report is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2011O Bonds.

Power Supply Resources

The following table sets forth information concerning the Electric Utility Department's power supply resources and the percent of total energy supplied by each during the fiscal year ended June 30, 2010:

CITY OF REDDING
ELECTRIC UTILITY DEPARTMENT
POWER SUPPLY RESOURCES
(For the Fiscal Year Ended June 30, 2010)

Source	Capacity Available (MW)	Actual Energy (GWh)	Percent of Total Energy
Purchased Power:			
Western Base Resource	110.0	172	12.0%
M-S-R PPA/Big Horn Wind Project	23.0	166	11.6
PacifiCorp[1]	50.0	123	8.6
American Electric Power (AEP)	25.0	218	15.3
Short-Term Purchases[2]	–	553	38.8
Generation Facilities:			
Redding Power Plant[3]	141.0	23	1.6
Whiskeytown	3.5	27	1.9
M-S-R PPA/San Juan	21.5	146	10.2
Total (Generated and Purchased)	374.0	1,428	100.0
Total Energy Sold and Exchanged at Wholesale	N/A	618	43.3
System Requirement for Retail	N/A	810	56.7

(1) The majority of Redding's interest in San Juan Unit No. 4 is exchanged with PacifiCorp.
(2) Includes power purchases for resale. See "Wholesale Power Trading" below.
(3) Capacity listed is nameplate capacity for Redding Power Plant.

Source: City of Redding.

Generating Facilities

Whiskeytown Project. Redding owns and operates a 3.5 MW hydroelectric generating plant located at the United States Bureau of Reclamation Whiskeytown Dam near Redding, California. This project, completed in 1986, has produced average annual energy in the amount of approximately 20 GWh. In some years, temporarily high flow releases have been captured by the flexibility of the dual runners installed in the Whiskeytown unit and additional energy has been generated, such as occurred in fiscal year 2007-2008 when 26 GWh was produced. Redding estimates that under minimum flow releases, this hydroelectric generation facility will produce approximately 10 GWh per year. Redding estimates that this hydroelectric generation facility will produce approximately 20 GWh in fiscal year 2010-11. Redding has received full California Energy Commission certification for the Whiskeytown hydroelectric facility as a California Renewable Portfolio Standard (RPS) "Eligible" renewable resource. The Whiskeytown hydroelectric facility has been registered with the Western Renewable Energy Generation Information System (WREGIS), and the associated Renewable Energy Credits will either be retained by Redding for renewable portfolio standard ("RPS") compliance purposes or utilized for wholesale sales.

Redding Power Plant Project. The Redding Power Plant Project presently consists of the following components: a dual boiler natural gas-fired 28 MW steam turbine, a 39 MW (summer rated capacity) combustion turbine (placed into commercial operation in June 2002 to operate in combined cycle with the existing steam turbine) and three combustion turbines, with a summer rated combined capacity of 61 MW (for a total plant summer rated capacity of 128 MW). The 28 MW Redding Power Plant was acquired by Redding in August 1991. Prior to 2002, the Redding Power Plant had been used primarily for load following and peaking purposes. However, with the installation of the new high-efficiency combined cycle base load unit, generation from the overall facility has significantly increased. Redding has begun undertaking construction of a new 42.5 MW natural gas-fired combustion turbine with a heat recovery steam generator (Unit No. 6). The new unit is nearly complete and is expected to be placed into operation at the Redding Power Plant in the second quarter of 2011. Unit No. 6 is essentially a twin to the existing Unit No. 5. Both generator Units No. 5 and No. 6 will operate in combined-cycle to provide steam to the existing steam turbine/generator, thus replacing the steam output of both boilers.

Redding has developed a comprehensive natural gas program to both manage supply and price volatility. This includes acquisition of pipeline capacity to both the AECO and Rocky Mountain supply basins and forward purchases of natural gas at fixed prices. Additionally, Redding has a new comprehensive Asset Management and Optimization Agreement with British Petroleum that currently extends through 2013, with an option for a year-to-year extension thereafter.

Current fixed price natural gas purchases are:

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Dth/dy (Decatherm per day)	0	4,500	6,500	6,500	5,500	6,000	6,000	4,000	4,000

Currently Redding's fixed price natural gas contracts beyond 2011, in the aggregate, are comparable to the current forward natural gas curve. Redding considers the quantities listed above sufficient to meet known forward commitments through 2012, 80% through 2015, and 35% through 2017. Beyond 2015 the quantities will be increased as market conditions warrant.

To further manage seasonal, weather, and price volatility, Redding has, since 2004, contracted for natural gas storage within northern California. In 2010, under a 28-year term contract, Redding commenced utilizing storage rights at acceptable terms and conditions in Gill Ranch, a new gas storage facility located in central California.

Joint Powers Agency Resources

TANC California–Oregon Transmission Project. Redding is a member of TANC and has executed the TANC Agreement for a participation percentage of TANC's entitlement of COTP transfer capability. Pursuant to the TANC Agreement, Redding is obligated to pay 8.412% of TANC's COTP operating and maintenance expenses, 8.281% of TANC non-Vernon related debt service and 9.141% of the Vernon COTP transmission assets acquisition debt. Redding is entitled to 8.412% of TANC's share of COTP transfer capability (approximately 115 MW) on an unconditional take-or-pay basis. Redding's share of annual operating and maintenance expenses and debt service for the COTP through TANC is approximately $3.8 million per year. Redding's payments to TANC, including debt service on TANC's revenue bonds, constitute an operation and maintenance cost of the electric system.

On April 1, 2005, Redding purchased from the City of Shasta Lake its 1.5856% ownership interest (approximately 25 MW) in the COTP. Redding used reserve funds to make the COTP purchase and in a later financing restored the reserve funds that were initially used for the COTP purchase. Redding's share of COTP operation and maintenance expenses associated with the 25 MW ownership interest is approximately an additional $186,000 per year.

As a result of Redding's purchase of the City of Shasta Lake's ownership interest in the COTP, Redding participates in the use of the COTP as both a member-participant of TANC (115 MW) and as a COTP owner (25 MW). Redding gains access to its COTP entitlements through a long term transmission contract with Western. Redding is currently using a portion of its COTP transfer capability to provide transmission of renewable wind capacity and energy purchased through M-S-R PPA. In addition, Redding imports PacifiCorp exchange energy over the COTP. The remaining transfer capability is used to make spot market purchases of firm and non firm energy and as reliability backup for Redding's firm power purchases.

See "MODESTO IRRIGATION DISTRICT – Joint Powers Agency Resources – *TANC California–Oregon Transmission Project*" for a further description of TANC and COTP.

In January, 2005, Redding became a part of the SMUD balancing authority area within the Western sub-balancing authority area. In December 2005, the COTP was transferred to the SMUD balancing authority. Now Redding enjoys the benefits of direct scheduling energy transactions over the COTP within the new balancing authority, free of the California Independent System Operator (the "ISO") tariff, charges, congestion and encumbrances. Redding has maintained its existing firm transmission rights and continues to use its allocation of COTP transfer capability for firm and non-firm powers transactions as it did prior to the start up of the ISO.

Tesla–Midway Transmission Service. Pacific Gas and Electric Company ("PG&E") provides TANC and certain of its members with 300 MW of firm, bi-directional transmission service on its transmission system between its Tesla Substation near Tracy, California and its Midway Substation near Buttonwillow, California (the "Tesla-Midway Service") under a long-term agreement known as the South of Tesla Principles. Redding's share of Tesla–Midway Transmission Service is 31 MW. Redding has utilized its full allocation of Tesla–Midway Transmission Service for firm and non-firm power transactions. See "MODESTO IRRIGATION DISTRICT – Joint Powers Agency Resources – *Tesla–Midway Transmission Service*" for a further description of the Tesla–Midway Transmission Service.

M-S-R PPA Purchased Power–San Juan Project. As described in the forepart of this Official Statement, Redding has purchased from M-S-R PPA a 15% entitlement share in M-S-R PPA's San Juan Ownership Interest pursuant to the Power Sales Agreement, which includes approximately 21.5 MW of capacity and associated energy from the M-S-R San Juan Ownership Interest. See "THE PROJECT" in the forepart of this Official Statement and "MODESTO IRRIGATION DISTRICT – Joint Powers Agency Resources – *M-S-R PPA Purchased Power–San Juan Project*" in this Appendix A for a further description of the M-S-R PPA San Juan Unit No. 4 Interest.

Redding's payments to M-S-R PPA, including debt service on M-S-R PPA revenue bonds proceeds of which were used to purchase the M-S-R PPA San Juan Unit No. 4 Interest, constitute an operation and maintenance cost of the electric system.

Redding currently has an exchange agreement with PacifiCorp whereby Redding's share of the output of the San Juan Unit No. 4 Interest is delivered to PacifiCorp in the Southwest in exchange for energy deliveries from PacifiCorp to Redding in the Northwest. See "–Purchased Power – *PacifiCorp Power Purchase*" below.

M-S-R PPA Southwest Transmission Project. The Southwest Transmission Project consists of M-S-R PPA's participation in the acquisition and construction of a 500 kV alternating current transmission project between the central Arizona area and the Los Angeles basin and certain other transmission facilities and arrangements to provide for the delivery of power and energy from the San Juan Unit No. 4 Interest to the M-S-R PPA members' systems in Northern California. Redding is unconditionally obligated for 15% of the costs of the M-S-R PPA Southwest Transmission Project subject to the step-up provisions in the Power Sales Agreement described herein. See "THE PROJECT – Southwest Transmission Project" in the forepart of this Official Statement and "MODESTO IRRIGATION DISTRICT – Joint Powers Agency Resources – *M-S-R PPA Southwest Transmission Project*" in this Appendix A for a further description of the Southwest Transmission Project.

As noted above, Redding's exchange arrangement with PacifiCorp of Redding's share of the San Juan M-S-R PPA San Juan Unit No. 4 Interest output, for power delivered by PacifiCorp in the Northwest, extends through November 2015. As a result, Redding utilizes its share of the M-S-R PPA Southwest Transmission Project to complete off-peak deliveries of any additional San Juan energy not utilized under the PacifiCorp exchange arrangement and for qualified wholesale sales or purchase opportunities into and through southern California.

M-S-R PPA Purchased Power–Big Horn Wind Energy Project. In 2005, M-S-R PPA entered into a series of power purchase agreements with Iberdrola Renewables, Inc. (formerly PPM Energy Inc.) ("Iberdrola"), which agreements have been assigned to Iberdrola subsidiary, Big Horn I, LLC, for the purchase of energy from the Big Horn wind energy project (the "Big Horn Wind Project") located near the town of Bickleton, in Klickitat County, Washington. Redding receives 35% of the power purchased by M-S-R PPA from the Big Horn Wind Project. Redding's share equates to approximately a 70 MW share of the output at a cost comparable to combined cycle gas-fired generation. Power deliveries commenced on October 1, 2006. The Big Horn Project is operated within the BPA balancing authority area. On October 1, 2009, BPA began imposing a wind integration charge of $1.29/kW-month, effective through September 2011. Currently, BPA is conducting a 2012-2013 power rate case. See "M-S-R

PUBLIC POWER AGENCY – Other M-S-R Projects – *M-S-R Purchased Power–Big Horn Project*" in the forepart of this Official Statement and "MODESTO IRRIGATION DISTRICT – Joint Powers Agency Resources – *M-S-R Purchased Power –Big Horn Wind Energy Project*" for a further description of the Big Horn Project.

Redding uses a portion of its transfer capability of the COTP to provide for transmission of the output from the Big Horn Wind Energy Project from the California-Oregon border.

M-S-R Energy Authority–Gas Prepay. In 2009, Redding participated in the M-S-R Energy Authority ("M-S-R EA") Gas Prepay Project. The Gas Prepay Project provides, through a Gas Supply Agreement between M-S-R EA and Redding, for a secure and long-term supply of natural gas of 5,000 MMBtu daily (or 1,825,000 MMBtu annually) through September 30, 2039. The Gas Supply Agreement provides this supply at a discounted price below the monthly market index price (the PG&E Citygate index) over the 30-year term. M-S-R EA entered into a prepaid gas purchase agreement with Citigroup Energy, Inc. ("CEI") to provide this gas supply, and issued $200.385 million of its Gas Project Revenue Bonds to finance the prepayment for Redding. Under the terms of the Gas Supply Agreement, M-S-R EA will bill Redding for actual quantities of natural gas delivered each month on a "take-and-pay" basis. Moreover, any default by CEI or the other participants in M-S-R EA's Gas Prepay Project, Modesto and Santa Clara, is non-recourse to the City.

NCPA. Redding is a member of the Northern California Power Agency ("NCPA"). NCPA owns certain electric generating projects. Redding is not currently a participant in any of the NCPA projects. As a member of NCPA, Redding participates in NCPA's State and federal legislative and regulatory matters.

Purchased Power

Western. Redding receives a substantial portion of its supply of power from the Central Valley Project (the "CVP") pursuant to a contract with Western. The CVP, for which Western serves as marketing agency, is a series of federal hydroelectric facilities in Northern California operated by the United States Bureau of Reclamation. Delivery of purchased power from Western is made at the two interconnection points with Western, the Keswick Dam Switchyard, a Western facility located approximately 0.5 miles from Redding, and at Redding's Airport Substation, which is jointly owned by Western and Redding, and located in the southeastern part of Redding. Power is transmitted to Redding's distribution substations over Redding's 115 kV distribution lines.

On September 13, 2000, Redding signed a 20-year agreement with Western for the continued purchase of low-cost hydroelectricity from the CVP. This agreement changed Redding's energy allocation from the prior levels of approximately 600 GWh to about 250 GWh per year delivered to Redding based upon the annual hydrology of the CVP. In anticipation of this significant contractual change, Redding undertook an aggressive program to add additional local resources, including the addition of two combustion turbine units at the Redding Power Plant (see "Power Supply Resources – Generating Facilities – *Redding Power Plant Project*" above). Service under the new agreement with Western began on January 1, 2005 and continues through 2024, with Redding receiving a 7.7% "slice of the system" allocation from Western. The power marketed by Western to Redding is provided on a take-or-pay basis where Western's annual costs are allocated to all CVP preference customers based on their CVP participation percentage. Western then allocates the annual take-or-pay charges to the CVP preference customers based on a monthly percentage that is designed to reflect the anticipated seasonal energy deliveries. Redding is obligated to its preference customer share (7.7%) of the costs associated with operating the CVP facilities.

The table below shows the deliveries and wholesale power rates charged by Western for fiscal year 2006-07 through 2009-10 and the projected deliveries and power rates to be charged by Western for fiscal year 2010-11.

WESTERN AREA POWER ADMINISTRATION
WHOLESALE POWER RATES AND DELIVERIES
(Historical and Projected – 2006-07 through 2010-11)

Fiscal Year	Energy (GWh)	Price $/MWh
2006-07	263	16.4
2007-08	197	29.1
2008-09[1]	185	29.9
2009-10	172	31.8
2010-11	249	24.8

[1] The 2008-09 deliveries include the impacts of a below average carry-over of reservoir storage conditions from the 2007-08 period. Long-term average energy production is forecasted to be 257 GWh annually, with an estimated cost in the range of $23 to $27 per MWh.

Source: City of Redding.

PacifiCorp Power Purchase. On December 6, 1995, Redding entered into an exchange arrangement with PacifiCorp. Under the agreement, Redding provides 21.5 MW of year-round San Juan Unit No. 4 capacity and energy in exchange for 50 MW of capacity and an equivalent amount of energy delivered at the California–Oregon border during the six peak summer months. The exchange enables Redding to accumulate energy for subsequent delivery during peak usage periods at rates of delivery exceeding those which would have been available to Redding from San Juan Unit No. 4. Pursuant to the execution of the original long term power sale and exchange agreement executed by Redding with PacifiCorp, the exchange of Redding's share of the output of the San Juan Unit No. 4 Interest with PacifiCorp continued through November 2000, and thereafter Redding and PacifiCorp entered into a new exchange arrangement for the period December 1, 2000 through November 30, 2015. Because the arrangement is based upon Redding's delivery of San Juan Unit No. 4 energy to PacifiCorp, energy costs are effectively based upon variable San Juan Unit No. 4 operating costs.

Renewable Resources. In response to the adoption of Senate Bill 1078 in 2002, Redding formally adopted its Renewable Portfolio Standard ("RPS") in 2003 which states that Redding shall meet or exceed a standard of 20% of Redding's annual energy needs to be provided by state qualified renewable resources by 2017. In response to the California Air Resources Board's adoption of an RPS, Redding has updated its RPS to match the new standard of 33% by 2020. See "DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation – *Renewable Portfolio Standards*" in the forepart of this Official Statement.

Redding considers large hydro, such as the CVP, as a viable renewable resource, and purchases a significant portion of its energy needs from the CVP. Since 2003, Redding has aggressively pursued cost effective contracts and ownership opportunities for renewable resources. As described herein, through M-S-R PPA, Redding has contracted with Iberdrola for wind energy from the Big Horn Wind Project. Redding also owns and operates its small hydroelectric generating plant at the base of Whiskeytown Dam.

In 2007, Redding adopted a solar initiative program designed to meet Senate Bill 1 ("SB 1") requirements for the promotion of solar photovoltaic projects through rebates and incentives. Over the last several years, Redding has installed 156 solar PV projects with a capacity of nearly 600 kW. The projects range from 1 kW to 14 kW and are located on city-owned and customer-owned facilities throughout Redding. Redding offered aggressive rebates through September 30, 2010. The Redding City Council approved a 700 kW project at the municipal airport at its December 7, 2010 meeting, which combined with several other scalable sized projects effectively exhausted funds available to incentivize solar photovoltaic projects with rebates through 2015. During FY 2012, Redding anticipates construction on those projects to be completed, which will increase Redding's solar capacity to greater than 2 MW.

Redding has registered with WREGIS and intends to track its purchase and sales of renewable energy credits ("RECs") and generation from the Whiskeytown Project through WREGIS. Redding intends to market its surplus RECs in the wholesale market to provide additional revenue to the electric utility reserves.

Future Power Supply Resources

Redding maintains an aggressive future power supply plan to ensure that resources to meet both the capacity and energy needs of Redding (including reliability reserves) are planned, fully developed and tested well before their load service duty begins. To that end, Redding has built and purchased under long-term contracts sufficient peak capacity resources to meet system requirements through 2015 and supply Redding's energy needs through 2037. In anticipation of the termination of the AEP contract for 25 MW in 2010 and the loss of the PacifiCorp exchange contract in 2015, on June 11, 2007, the Redding City Council approved the addition of a new 42.5 MW natural gas-fired combined cycle generator (Unit No. 6). See "Power Supply Resources – Generating Facilities – *Redding Power Plant Project*" above. Redding continues to look for cost effective conventional and renewable resources that will complement Redding's existing diversified resource portfolio and reliably meet the future electricity needs of Redding's customers. See "Redding's Initiatives Since Industry Restructuring – *Power Resources*" below.

Wholesale Energy Trading

As previously noted, Redding aggressively plans for its future conventional and renewable power supplies. Since generation and transmission resource additions do not perfectly fit Redding's yearly load growth projections, Redding often has energy that is surplus to its needs. Therefore, Redding participates in trading in the wholesale energy markets in order to capture the maximum value of its generation assets and to minimize the cost of purchased power. Additionally, Redding optimizes its gas purchases and sales within the year to coordinate with wholesale energy costs. In the last three fiscal years, net revenue associated with these trading activities has averaged $18 million. Approximately $1.4 million of amounts due from the ISO related to wholesale sales in 2000 are past due and may ultimately be uncollectible. The amount owed to Redding is caused mainly by the bankruptcies of PG&E and the California Power Exchange. See "Litigation – *California Energy Market Refund Dispute*" below. Redding expects to continue optimizing its generation and transmission assets in the wholesale market for the benefit of its retail electric customers. Redding anticipates that wholesale sales will continue through 2014 and decline thereafter as Redding's retail load grows to fully utilize available generation.

Transmission and Distribution

As discussed herein, Redding has ownership and contractual rights on two Extra High Voltage (EHV) transmission systems, COTP and the Southwest Transmission Project. Through its participation in the TANC, Redding owns and has contractual rights to approximately 140 MW of the COTP. Through its participation in M-S-R PPA, Redding participated in the development and construction of the Southwest Transmission Project. The Southwest Transmission Project provides Redding with up to 21.5 MW of transmission capacity into and out of the Desert Southwest region for delivery of power.

Delivery of all power from sources outside of Redding is made to Redding at the Keswick Switchyard and the Airport 230/115 kV Substation. These two facilities provide Redding with a reliable interconnection capacity of 275 MW from Western's 230 kV transmission system. Redding owns and operates a 115/13.8 kV generation step up substation at the Redding Power Plant. Redding also jointly owns the Airport Substation with Western. Redding owns and operates 67.3 miles of 115 kV distribution system lines which delivers energy to existing distribution substations that step the voltage down to 12 kV. Redding also owns and operates 642 miles of 12 kV distribution system lines. Redding's system typically experiences approximately 31 minutes of outage time per customer per year (excluding major storm events).

Employees

As of January 1, 2011, 168 full-time equivalent (FTE) staff were assigned to the Electric Utility Department, including 126 FTE for the Electricity Services Divisions, 31 FTE for the Customer Service Division and 11 FTE for the Field Service (meter reading) Division. All full-time employees, excluding those in management, clerical and professional classifications, are represented by the International Brotherhood of Electric Workers ("IBEW") in all matters pertaining to wages, benefits and working conditions. The current agreement with the IBEW is in the form of a memorandum of understanding that expired on August 31, 2008. On March 15, 2010, the Redding City Council unilaterally implemented the City's last-best-final offer. This establishes the terms and conditions of employment for a period of 12 months. As of March 15, 2011, negotiations on a new memorandum of understanding are on-going. Clerical employees are represented by Service Employees International Union ("SEIU") pursuant to an agreement which terminates June 30, 2014. Management and professional employees receive substantially the same fringe benefit package as the represented employees. Redding's wage and fringe benefits are generally comparable to those offered by other local public agencies.

Redding's defined benefit pension plans, the Miscellaneous Plan and Safety Plan of the City of Redding, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries for all Redding employees, including those assigned to the Electric Utility Department. The plans are part of the Public Agency portion of the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Redding contributes to CalPERS for all of its employees. The Electric Utility Department contributes its allocable share (approximately ___%) of the required contributions for its employees. No employees assigned to the Electric Utility Department participate in the Safety Plan. As of June 30, 2009 (the latest date for which actuarial information is available), the total actuarial accrued liability for Redding was $272,828,828 for the Miscellaneous Plan, the actuarial value of plan assets was $226,202,324, and Redding had an unfunded liability of $46,626,504 for the Miscellaneous Plan, representing a funded ratio of 82.91%. The Plan's unfunded actuarial accrued liabilities are being amortized separately over a 20-year period. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

In addition to the defined pension plan through CalPERS, Redding approved the establishment of a Public Agency Retirement System ("PARS") Retirement Enhancement Plan ("REP") effective January 1, 2005, in order to provide a supplemental retirement benefit for all eligible Redding employees in addition to the CalPERS retirement benefits described above. PARS is a multiple-employer retirement trust for public agencies made up of governmental agencies in California. The REP defined benefit plan covers all Redding non-public safety employees. Redding makes all required contributions to fund the benefits under the REP. Redding's contributions to PARS were $4,272,732 in fiscal year 2009-10. As of September 30, 2008 (the latest date for which actuarial information is available), the total actuarial accrued liability for Redding's REP was $37,032,204 for the Miscellaneous Plan, the actuarial value of plan assets was $8,140,579, and Redding had an unfunded liability of $28,891,625, representing a funded ratio of 21.98%.

For fiscal year 2009-10, Redding's annual pension cost was $8,529,910 for the Miscellaneous Plan and its annual pension cost to PARS for the REP was $4,272,732. Redding made all of its required employer contributions for such fiscal year. The required contributions for fiscal year 2009-10 were determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members, and (c) 2% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0% and a production growth component of 0.25%. The actuarial assumptions used by PARS are consistent with those used by CalPERS with the exception of a 7.5% investment rate of return.

CalPERS determines the actuarial value of plan assets utilizing a smoothing technique in order to dampen the effect of short term market value fluctuations on employer contribution rates. Under the smoothing technique, an expected value of assets is computed by bringing forth the prior year's actuarial value of assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The actuarial value of assets is then computed as the expected value of assets plus 1/15th of the difference between the market value of assets and the expected value of assets as of the valuation date. In no case will the actuarial value of assets be less than 80% or more than 120% of the actual market value of assets. Beginning with the June 30, 2004 valuation, all gains and losses are tracked and amortized over a rolling 30-year period.

Redding also provides medical and dental benefits to eligible retirees and their spouses through the City of Redding Post-Retirement Health Care Plan (the "OPEB Plan"). The City Council has the authority to establish and amend benefit provisions to the OPEB Plan. The authority for this coverage is union contracts for union employees and council resolution for all other employees. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to pre-fund benefits as determined annually by the City Council.

For fiscal year 2009-10, Redding did not pre-fund any portion of the plan. The full cost of current premiums for fiscal year 2009-10 was $4,659,679, of which the retirees contributed $2,280,202, representing 29.7% of the total annual OPEB cost. As of January 1, 2009 (the most recent actuarial valuation date), the OPEB Plan was 0% funded. The actuarial accrued liability for benefits was $82.6 million and the actuarial value of plan assets was $0, resulting in an unfunded actuarial accrued liability of $82.6 million.

The premium share policy for the post-employment health insurance is subject to each of the eight labor organization/employee group's bargaining agreements. As described above, historically, Redding has paid for one-half of the cost associated with health insurance for employees who retire from Redding, and the retiree paid for the other one-half. In 2008, Redding began implementing a two tier health insurance benefit system for future employees who subsequently retire from Redding. The two tier system stipulates that employees, after a designated period of time and subject to each labor organization's bargaining agreement, would be responsible for the full cost of the group health insurance benefits upon retirement from Redding. Those hired prior to the designated period of time would continue to receive the health insurance benefit, sharing the premium with Redding on a 50% basis. In 2010, Redding began implementing a vested health insurance benefit system for all employees who subsequently retire from Redding. Under this system, Redding would pay 2% per year of service of the cost associated with health insurance for employees who retire from Redding up to a maximum of 50% after 25 years of service with a five year vesting requirement. The retiree pays the remaining portion. As each labor organization's current labor agreement expires with Redding, Redding will propose the aforementioned during the subsequent negotiation process. The following labor organizations/employee groups have accepted the two tier health benefit system: Service Employees International Union – Clerical, Technical and Professional Employees and Service Employees International Union - Supervisory/Confidential. The following labor organizations/employee groups have accepted the new vesting formula for post-employment health insurance: Redding Police Officers Association – Miscellaneous employees and International Brotherhood of Electrical Workers - Maintenance employees. In addition, the International Brotherhood of Electrical Workers – Electric employees are currently operating under an imposed contract, which includes the new vesting formula.

Rates and Charges

The Redding City Council is authorized by the Redding Municipal Code to establish electrical utility rates for all electric utility subscribers. Rate changes are not subject to regulatory agency review. Redding has maintained rates sufficient to pay for (a) operations and maintenance of the system; (b) additions and betterments to the system; (c) amortization of all depreciation and obsolescence within the system; (d) all debt service liability incurred in the construction or extension of the system; and (e) establishment and maintenance of a reserve fund to provide for extensions and betterments of the system and unforeseen contingencies.

On March 21, 1989, the Redding City Council adopted a rate adjustment mechanism establishing a policy for future rate increases of the electric system. The policy provides that electric system rates will be established at a level sufficient to maintain operating reserves at a level equal to 20% to 30% of annual operation and maintenance expense and to maintain a debt service coverage ratio (i.e., net electric system revenues to debt service) of 1.2 to 1.4. Further, the Redding City Council adopted a policy which provides the authority for a power cost adjustment ("PCA") to pass through increases in purchased power unit costs resulting from Western's Central Valley Project Restoration Fund requirements. See "Redding Initiatives Since Industry Restructuring" below for a discussion of more recent policies on rates and electric service charges.

The following table presents a history of the Redding Electric Utility Department's rate increases since 2007. On April 3, 2007, the Redding City Council approved two consecutive general rate increases of 5.85%, the first effective April 4, 2007, and the second effective on the first day of the first full billing cycle in January 2008. The Redding City Council also approved a Solar Initiative Surcharge of $0.00125 per kWh on all non-Lifeline customer energy usage. This surcharge, which approximates a 1.25% general rate increase, is dedicated to funding Redding's response to California's SB 1 Solar Funding mandate. On December 16, 2008, the Redding City Council approved two consecutive general rate increases of 7.84%; the first increase was effective December 31, 2008 and the second was effective December 1, 2009. On December 7, 2010, the Redding City Council approved two consecutive general rate increases of 7.84%, the first of such increase was effective January 3, 2011, and the second is effective December 1, 2011.

CITY OF REDDING
ELECTRIC UTILITY DEPARTMENT
RATE INCREASES

Date	Percent Change
December 1, 2011[3]	7.84%
January 3, 2011[3]	7.84
December 1, 2009[2]	7.84
December 31, 2008[2]	7.84
January 1, 2008[1]	5.85
April 4, 2007[1]	5.85

(1) In April 2007, the Redding City Council approved the two consecutive general rate increases.
(2) In December 2008, the Redding City Council approved the two consecutive general rate increases.
(3) In December 2010, the Redding City Council approved the two consecutive general rate increases.

Source: City of Redding.

Major Customers

Based upon energy usage for the fiscal year ended June 30, 2010, the ten largest accounts (excluding State and federal government accounts) represent approximately 12.9% of total kWh sales and approximately 12.3% of total revenues. The largest account consumed 4.8% of Redding's total kWh sales and contributed approximately 4.7% of total revenues and the smallest of the ten largest accounts consumed 0.6% of total kWh sales and contributed approximately 0.6% of revenues.

CITY OF REDDING
ELECTRIC UTILITY
TEN LARGEST CUSTOMERS[1]
(Fiscal Year 2009-10)

Customer	Total Electric Charge	% of Total System Revenue	Total kWh Usage	% of Total System Usage
City of Redding	$ 4,328,776	4.68%	36,974,794	4.8%
Shasta County	1,346,582	1.46	10,621,886	1.4
Mercy Medical Center	1,293,805	1.40	13,062,284	1.7
Prime Healthcare	967,147	1.05	9,614,790	1.2
Shasta Union High School District	672,801	0.73	4,810,419	0.6
AT&T	616,047	0.67	5,546,945	0.7
Mt. Shasta Mall	563,106	0.61	4,550,560	0.6
Safeway Stores	524,232	0.57	5,100,760	0.7
Redding School District	522,602	0.57	3,775,667	0.5
Raley's Supermarkets	508,261	0.55	4,994,280	0.6
Totals	$11,343,359	12.27%	99,052,385	12.9%

(1) Excludes Federal and State Government accounts.

Source: City of Redding.

Customers, Energy Sales, Revenues and Demand

The average number of customers, kWh sales, revenues derived from sales, by classification of service, and peak demand during the past five fiscal years, are listed in the following table:

CITY OF REDDING
ELECTRIC UTILITY DEPARTMENT
CUSTOMERS, SALES, REVENUES AND DEMAND
(Fiscal Years Ended June 30)

	2006	2007	2008	2009	2010
Number of Customers[1]:					
Residential	36,063	36,436	36,495	36,616	36,762
Commercial	4,948	5,042	4,967	5,063	5,017
Industrial	329	338	340	362	358
Other	783	823	1,008	869	898
Total Customers	42,123	42,639	42,810	42,910	43,035
Kilowatt-Hour Sales:					
Residential	383,507,759	388,390,488	381,653,677	386,638,170	381,903,532
Commercial	344,752,779	350,434,913	345,479,284	344,764,392	330,096,880
Industrial	16,865,375	16,808,151	15,967,289	14,934,165	14,126,910
Other	46,026,610	47,376,234	48,248,236	45,936,481	43,872,459
Total kWh	791,152,523	803,009,786	791,348,486	792,273,208	769,999,781
Revenues from Sale of Energy:					
Residential	$36,072,148	$37,008,991	$39,009,760	$41,825,738	$44,815,164
Commercial	32,641,261	33,592,849	35,656,629	37,789,459	39,218,360
Industrial	1,760,335	1,762,363	1,799,242	1,789,194	1,803,778
Other	4,146,952	4,318,878	4,794,348	4,876,883	5,011,675
Total Revenues from Sale of Energy:	$74,620,696	$76,683,081	$81,259,979	$86,281,274	$90,848,977
Peak Demand (kW)	243,700	253,000	245,500	246,800	248,100

(1) The Number of Customers values includes every point at which electricity is used as of the last month of the fiscal year.

Source: City of Redding, Utility Billing System Detailed Marketing Report of Quarterly NAICS Usage.

All electric bills are due and payable upon receipt of billing and become delinquent 20 days thereafter. If such bills remain unpaid on the 42nd day after billing, all electric services are subject to termination until all fees, charges, penalties and the entire delinquent balance have been paid. Delinquent fees and charges may be made a lien against the property, placed on the tax roll of Shasta County and collected in the same manner as ad valorem taxes.

Redding considers its write offs for uncollectible accounts to be low by electric utility industry standards for urban areas. The write offs for uncollectible accounts for the past five fiscal years are presented in the following table:

As of June 30	**Uncollectible Revenues**	**Percent of Gross Billings**
2006	$230,000	0.20%
2007	195,000	0.25
2008	230,000	0.31
2009	496,000	0.57
2010	285,000	0.31

Source: City of Redding.

Capital Requirements

Redding expects capital requirements for general system improvements to average approximately $6 million per year for the next five years. It is expected that these requirements will be funded primarily from electric system revenues, although Redding may seek reimbursement from the proceeds of prior or future tax exempt financings.

Indebtedness

As of June 30, 2010, Redding had $183,290,000 principal amount of electric system revenue certificates of participation (collectively, the "Certificates") payable from net revenues of the electric system, including the following issues:

Name of Issue	Original Principal Amount	Principal Amount Outstanding
Electric System Revenue Certificates of Participation, 2005 Series A	$ 30,700,000	$ 30,700,000
Electric System Revenue Certificates of Participation, 2008 Series A	157,965,000	152,590,000
TOTAL	$188,665,000	$183,290,000

Source: City of Redding.

All of the Certificates bear interest at a fixed rate. The installment purchase contract for each Series of the Certificates contains a debt service coverage requirement. These certificates of participation are all parity obligations of Redding and under their financing documents are paid after the obligations of Redding under the Power Sales Agreement and certain other obligations of Redding as described above in "Joint Powers Agency Resources. See "Summary of Operating Results and Condensed Balance Sheet Information" below.

As previously discussed, Redding participates in several joint powers agencies, including M-S-R PPA, M-S-R EA and TANC, which have issued indebtedness to finance the costs of certain projects on behalf of their respective project participants. Redding does not currently participate in any NCPA projects. Obligations of Redding under its agreements with respect to M-S-R PPA and TANC constitute operation and maintenance costs of the electric system payable prior to any of the payments required to be made on Redding's electric revenue Certificates described above. Agreements with M-S-R PPA and TANC are on a "take-or-pay" basis, which requires payments to be made whether or not projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. Certain of these agreements contain "step-up" provisions obligating Redding to pay a share of the obligations of a defaulting participant. As described herein, Redding also participates in M-S-R EA and has certain payment obligations in connection therewith which constitute operation and maintenance costs of the electric system. However, Redding's payment obligation to M-S-R EA is with respect to actual quantity of natural gas delivered each month on a take-and-pay (rather than take-or-pay) basis. Responsibility for bond repayment is non-recourse to Redding. See "– Joint Powers Agency Resources – *M-S-R Energy Authority – Gas Prepay*" above.

Redding's participation and share of debt service obligation (without giving effect to any "step-up" provisions) for the M-S-R PPA and TANC projects in which it participates are shown in the following table.

CITY OF REDDING
ELECTRIC UTILITY DEPARTMENT
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
(Dollar Amounts in Millions)
(as of February 1, 2011)

	Outstanding Debt	City Participation[1]	City Share of Outstanding Debt
M-S-R PPA			
San Juan Unit No. 4	$323.1	15.00%	$48.5
Southwest Transmission Project	39.4	15.00	5.9
TANC			
Bonds	421.4	8.37[2]	35.2
TOTAL	$783.9		$89.6

(1) Participation obligation is subject to increase upon default of another project participant. Such increase should not exceed, without prior written consent of a non-defaulting participant, an accumulated maximum of 25% of such non-defaulting participant's original participation.

(2) As described herein, Redding's actual obligation differs slightly from this percentage due to varying shares of certain series of TANC bonds relating to each TANC member-participant's taxable portion and each TANC member-participant's participation or non-participation in acquisition of assets from Vernon.

Source: City of Redding.

For the fiscal year ended June 30, 2010, Redding's obligations for debt service on its joint powers agency obligations aggregated approximately $8.39 million. Debt service on joint powers agency obligations is expected to increase to a high of approximately $10.9 million in fiscal year 2021-22, but is expected to decline to approximately $2.6 million in fiscal year 2023-24. This projection assumes that there are no future debt issuances and that swap counterparties on interest rate hedges continue to perform (all of Redding's variable rate joint powers agency debt obligations are hedged). Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at a maximum rate substantially in excess of the rates assumed to calculate the above debt service amounts. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity agreements may result in the acceleration of scheduled payment of the principal of such variable rate joint powers agency obligations. In connection with certain joint powers agency obligations, the respective joint powers agency has entered into interest rate swap agreements relating thereto. There is no guarantee that the floating rate payable to the respective joint powers agency pursuant to each of the interest rate swap agreements relating thereto will match the variable interest rate on the associated variable rate joint powers agency debt obligations to which the respective interest rate swap agreement relates at all times or at any time. Under certain circumstances, the swap providers may be obligated to make payments to the applicable joint powers agency under their respective interest rate swap agreement that is less than the interest due on the associated variable rate joint powers agency debt obligations to which such interest rate swap agreement relates. In such event, such insufficiency will be payable as a debt service obligation from the obligated joint powers agency members (a corresponding amount of which proportionate to its debt service obligations to such joint powers agency could be due from Redding). Under certain circumstances, each of the joint powers agencies' swap agreements is subject to early termination, in which event the joint powers agency could be obligated to make a substantial payment to the applicable swap provider (a corresponding amount of which proportionate to its debt service obligations to such joint powers agency could be due from Redding).

Cash Reserves

Redding maintains cash reserves for a number of reasons, including operating cash requirements, construction cash requirements, dealing with the cost impacts of dry hydroelectric conditions, gas and electric market volatility, and to allow Redding the flexibility to increase rates on a scheduled basis. Redding has a long established policy of maintaining cash reserves equal to 20% of annual operating expenses. As of June 30, 2010, that required level of cash reserves was approximately $21 million. Cash reserves on hand at June 30, 2010 were approximately $33 million (including certain set-aside amounts which are excluded for purposes of the $25.6 million unrestricted cash balance hereinafter referred to). In addition, Redding had $29 million of cash reserves designated for construction purposes. Thus, as of June 30, 2010, Redding's electric utility had restricted and unrestricted cash reserves totaling approximately $62 million.

Collectively, these reserves are designated to help insulate Redding from market volatility. In addition, Redding's bond indentures permit the use of unrestricted cash balances and reserves to satisfy Redding's rate covenants with its bond holders. These reserves are not available for transfer to the general fund. The Redding City Council has a policy that limits in-lieu transfers to the general fund to 1% of the electric utility's asset base each year.

Redding has determined that it is appropriate to use a portion of its unrestricted cash balances and reserves to stabilize or subsidize its electric rates in the near term and to increase rates when appropriate. In December 2010, the Redding City Council adopted a 7.84% rate increase effective January 2011, and a 7.84% rate increase effective December 2011. The Redding City Council also indicated, based on the most recent rate case, additional 7.84% rate increases would be necessary in March 2013 and 2014. Under this proposal, cash reserves would be used to subsidize rates until 2013, when reserves would begin to be replenished. Redding used approximately $5 million of unrestricted cash reserves in the fiscal year ended June 30, 2010 and expects to use approximately $7 million in the fiscal year ended June 30, 2011. Redding continues to closely monitor its cash reserves as well as the effects of the current economic downturn on operating revenues and will keep the Redding City Council informed when and if there is a need for additional rate increases beyond those indicated above.

Service Area

The service area of the Electric Utility Department is coterminous with the City of Redding's boundaries and covers approximately 60 square miles.

Timber extraction and the processing of wood by-products, together with agriculture, tourism and government, have historically been the major sectors of employment in Redding. Redding's economic base has diversified from resource extraction and processing activities, primarily lumber, to a regional services economy supported by retail and wholesale trade plus educational, recreational, medical and government services for an area covering several counties. Redding has attracted new manufacturing industries through a combination of industrial development policies, the availability of a growing labor pool, and comparatively low development and living costs. A consistent factor in the growth of the labor force continues to be the out-migration of all types of workers from the population centers of Southern California and the San Francisco Bay Area to Shasta County and other Northern California counties. A large portion of the in-migrants possess high technical and administrative skills.

Major employers in Redding and Shasta County include those in medical services, government and retail services. Major non-governmental employers, their products or services, and the number of their respective employers in June 2010 are listed in the following table:

CITY OF REDDING/SHASTA COUNTY
MAJOR EMPLOYERS
(as of June 2010)

Employer	Product/Services	Number of Employees
Shasta County	County Services	1,924
Mercy Medical Center	Medical Facilities/Services	1,600
City of Redding	City Services	822
Shasta Community College	Education	700
Shasta Regional Medical Center	Medical Facilities/Services	600
Blue Shield of California	Health Care Insurance	470
Wal Mart	Retail	400
Redding Rancheria	Casino/Redding Rancheria	310
United States Post Office	Postal Service	300
Shascade	Community Action Agency	250

Source: Derived from the Employment Development Department's (EDD) listing of the top employers in Shasta County.

The following table summarizes employment by industry in Shasta County in calendar years 2006 through 2010. The calendar year figures presented are annual averages which are estimated by the State of California Employment Development Department.

LABOR FORCE IN SHASTA COUNTY
AVERAGE ANNUAL EMPLOYMENT 2006 TO 2010

	2006	**2007**	**2008**	**2009**	**2010**
Wage and Salary Employment:					
Farm	700	800	800	800	783
Natural Resources, Mining and Construction	5,600	5,000	4,100	2,900	2,700
Manufacturing	3,000	3,000	3,000	2,400	2,458
Trade, Transportation and Utilities	14,200	14,100	14,000	12,000	11,667
Information Services	1,000	1,000	900	700	625
Financial Activities	3,200	2,900	2,800	2,600	2,508
Professional and Business Services	6,500	6,800	6,900	5,500	5,417
Educational and Health Services	9,800	10,200	10,500	10,300	10,417
Leisure and Hospitality	6,700	7,000	7,100	6,200	6,183
Other Services	2,500	2,600	2,600	2,400	2,400
Government	13,000	12,900	13,100	13,700	13,508
Total[(1)]	66,200	66,300	65,800	59,500	58,666

(1) Columns may not add to totals due to independent rounding.
Source: California Employment Development Department.

According to the California Employment Development Department, Redding's metropolitan area unemployment rate was 16.0% for the year 2010. The following table sets forth certain information regarding employment in the Shasta County metropolitan area from 2006 through 2010.

COUNTY OF SHASTA
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
2006 TO 2010

	2006	2007	2008	2009	2010
Labor Force	83,800	84,800	86,900	84,300	84,992
Unemployed	5,600	6,400	8,600	12,500	13,592
Unemployment Rate	6.6%	7.5%	10.0%	14.9%	15.9%

Source: California Employment Development Department.

Population Characteristics

Redding was one of the fastest growing cities in California between 1970 and 1990, growing to 66,462 residents in 1990, from 41,995 residents in 1980 and 16,659 in 1970. Redding's population of 91,561 has increased 38% over the 1990 U.S. Census tabulation. Redding's population represents approximately 50% of the County's population of 184,247 in 2010. The following table indicates population growth for Redding and the County from 1970 to 2010.

CITY OF REDDING AND COUNTY OF SHASTA
POPULATION
(1970, 1980, 1990, 2000 as of April 1; 2005-2010 as of January 1)

	City of Redding		County of Shasta	
Year	Number	Annualized Percent Change Over Interval	Number	Annualized Percent Change Over Interval
1970	16,659	–	77,640	–
1980	41,995	15.21%	115,715	4.90%
1990	66,462	5.83	147,036	2.71
2000	80,865	2.17	163,256	1.10
2005	88,219	0.13	177,717	0.15
2006	88,878	0.12	179,259	0.12
2007	89,682	0.09	180,666	0.10
2008	90,491	0.10	182,236	0.09
2009	90,931	0.04	183,095	0.05
2010	91,561	0.07	184,247	0.06

Source: California Department of Finance Demographic Research Unit.

The Redding area is expected to maintain 49% or more of the total County population because of a variety of factors that will support urban development, including utilities (wastewater, water and electric), jobs, regional shopping, recreation opportunities and reduced commute and housing costs.

Transportation and Educational Facilities

Redding enjoys a strategic market location among the Pacific Coast States of California, Oregon and Washington. Interstate 5, the principal transportation artery running north-south from Mexico to Canada, connects Redding to the entire Pacific Coast marketplace. Redding lies an equal distance (approximately 600 miles) between Los Angeles, California and Seattle, Washington. Redding is also bisected by State Highway 299 and State Route 44, the key east-west transportation arteries in northern California. Interstate 5 also provides industrial and manufacturing firms in the County of Shasta with freight-delivery schedules to the Midwest and the East Coast.

Redding is served by the Union Pacific and Amtrak for rail transportation and Greyhound for bus service. United Express Airlines and Horizon Airlines provide air service from the Redding Municipal Airport to cities throughout California and the Pacific Northwest. Eight truck terminals are located in the County of Shasta and daily service is provided by six major carriers.

"THE RIDE" is Redding's multi-bus transportation system and offers twelve different fixed routes, demand response (curb-to-curb) services, and one express route to Burney, California.

Redding has 46 elementary schools, six junior high schools, and eight high schools. Shasta College, a two-year institution, offers both day and evening courses to approximately 11,500 students. In addition, Simpson University, a four-year liberal arts institution located in Redding has a current enrollment of approximately 1,265 students.

Litigation

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining Redding in the execution or delivery of, or in any way contesting or affecting the validity of any proceedings of Redding taken with respect to the Power Sales Agreement related to Redding.

There is no litigation pending, or to the knowledge of Redding, threatened, questioning the existence of Redding, or the title of the officers of Redding to their respective offices. There is no litigation pending, or to the knowledge of Redding, threatened, questioning or affecting in any material respect the financial condition of Redding's electric system.

At any given time, including the present, there are certain other claims and disputes, including those currently in litigation, that arise in the normal course of Redding's activities. Such matters could, if determined adversely to Redding, affect expenditures by Redding, and in some cases, its electric system revenues. Redding's management and its City Attorney are of the opinion that no pending actions are likely to have a material adverse effect on Redding's ability to make payments under the Power Sales Agreement related to Redding. See also "CONSTITUTIONAL LIMITATIONS ON GOVERNMENTAL SPENDING – Other Initiatives" in the forepart of this Official Statement for information regarding certain litigation filed against Redding under Propositions 26 and 62 relating to the electric system's in-lieu transfers to the City General Fund.

California Energy Market Refund Dispute. State and federal authorities are conducting investigations and other proceedings concerning various aspects of the 2000-2001 California energy crisis. These include, for example, investigations by the Federal Energy Regulatory Commission ("FERC") and the State of California into alleged overcharging for the sale of electricity. Redding, along with all market participants, received requests for information regarding its activities during the period under review. During 2002 and 2003, the investor-owned utilities (PG&E, Southern California Edison and San Diego Gas & Electric Company), the State of California, the California Electricity Oversight Board ("EOB") and the CPUC (collectively, the "California Parties") filed with FERC information alleging widespread manipulation of the California energy markets and collusion by market participants (including certain municipal electric utilities). On July 25, 2003, FERC initiated two "show cause" investigations to explore sellers' trading practices in the ISO and Power Exchange ("PX") markets. On August 29, 2003, Redding and FERC staff filed a comprehensive settlement for certification by the Administrative Law Judges (ALJs) wherein Redding would pay an amount of $6,300 associated with the gross cost of three circular transactions. In exchange, Redding would be settled out of both Show Cause Orders. Under the terms of the Redding Settlement Agreement, Redding does not admit that the allegations set forth in the Gaming and Partnership Orders have any merit, or that during the relevant period in these proceedings any of Redding's trading activities violated any governing tariff, regulation, or statute, or adversely affected the price formation process. Nor does Redding admit that the FERC has jurisdiction over a non jurisdictional utility, like Redding. Further, payment of the settlement amount does not constitute the payment of any refund, penalty, or fine. On January 22, 2004, FERC approved the Redding Settlement Agreement and the investigative orders involving Redding have been terminated. As with all FERC orders, this order is subject to requests for a rehearing before FERC. Two parties, the Port of Seattle and the California Parties, requested rehearing to challenge FERC's approval of the settlement. FERC denied the rehearing requests on November 14, 2008. The California parties subsequently appealed FERC's decision to a United States Circuit Court of Appeals for the Ninth Circuit. The Court consolidated the appeal with many others that have been filed with regard to similar settlements. The consolidated appeals are currently stayed.

Separately, in 2001, FERC initiated an evidentiary hearing to explore pricing of sales in the California markets (the "Refund Proceeding"), and ultimately ordered all sellers of energy and ancillary services to pay refunds of portions of amounts received for sales to the ISO and PX markets during the period from October 2, 2000 through June 20, 2001. Redding made limited sales in those markets as a customer of Western. The Ninth Circuit Court of Appeals determined that FERC's refund orders could not be applied to governmental entities, such as Western and Redding. Only one of the California Parties, PG&E, sought review of that order by the United States Supreme Court. The Supreme Court rejected that request on December 10, 2007. The California Parties are also seeking to collect the refunds improperly ordered by FERC through contract actions in state and federal courts. Certain FERC orders purportedly supporting those claims are under review by the Ninth Circuit Court of Appeals, which heard argument on September 23, 2010.

In addition, the California Parties are attempting to expand the time period during which refunds are calculated, to include the summer of 2000. Motions addressing that issue remain pending before the FERC. However, Redding made no sales in those markets during the summer of 2000, so those motions are unlikely to impact Redding. Redding is monitoring these proceedings because its limited sales through Western could result in non-material exposure to refunds if the California Parties successfully pursue claims against Western. The action against Western in Federal court proceeded through a liability phase trial, but the judge is apparently waiting until after the Ninth Circuit Court of Appeals rules on the related issues before issuing a decision in the Federal contract action. Most of the defendants in the state court contract actions reached settlement before that case proceeded through trial. Because Redding is owed money for the sales it did make during the 2000-2001 time period, it is unlikely that any final resolution of the proceedings will require Redding to make a payment, and it should result in funds being released to Redding.

Summary of Condensed Operating Results and Balance Sheet Information

A summary of operating results and condensed balance sheet information for Redding's electric system for the five fiscal years ending June 30, 2006 through June 30, 2010 is shown in the following tables. See "Cash Reserves" above. The following table also sets forth debt service coverage ratios with respect to Redding's outstanding electric system certificates of participation and other obligations for such years.

CITY OF REDDING
ELECTRIC SYSTEM
SUMMARY OF OPERATING RESULTS

	Fiscal Year Ended June 30,				
	2006	**2007**	**2008**	**2009**	**2010**
Revenue					
Retail Revenue	$ 74,453,321	$ 76,650,240	$ 81,916,025	$ 86,511,826	$ 91,215,729
Wholesale Revenue[(1)]	55,367,604	52,599,890	65,930,583	65,846,133	55,407,093
Misc. Other Income[(2)]	12,785,429	8,785,854	8,992,963	5,119,490	6,496,525
Total Revenue	$142,606,354	$138,035,984	$156,839,571	$157,477,449	$153,119,347
Operating Expenses[(3)]					
Cost Power[(4)]	$ 60,816,691	$ 70,194,118	$ 87,044,181	$ 90,770,250	$ 83,773,530
M-S-R PPA Payments-Net	11,498,207	12,756,442	12,655,620	13,664,701	13,837,507
TANC Payments	3,828,672	3,961,677	4,088,509	4,871,479	4,855,324
Other Operating Expenses	40,353,326	37,454,524	44,534,422	49,546,579	46,933,905
Total Expenses	$116,496,896	$124,366,762	$148,322,732	$158,853,009	$149,400,266
Net Revenue	$ 26,109,458	$ 13,669,222	$ 8,516,839	$ (1,375,560)	$ 3,719,081
Available Reserves[(5)]	46,005,959	41,649,569	38,929,919	37,000,967	33,562,914
In Lieu Tax Payment to General Fund[(6)]	3,913,790	4,314,010	4,932,060	4,832,090	6,055,950
Funds Available for Debt Service	$ 76,029,207	$ 59,632,801	$ 52,378,818	$ 40,457,497	$ 43,337,945
Debt Service[(7)]	8,989,562	9,573,078	9,083,139	5,067,968	10,110,131
Remaining Funds[(8)]	$ 67,039,645	$ 50,059,723	$ 43,295,679	$ 35,389,529	$ 33,227,814
Debt Service Coverage[(9)]	8.46	6.23	5.77	7.98	4.29
Current Debt Service Coverage[(10)]	2.90	1.43	0.93	N/A	0.37

(1) Primarily represents spot market sales of both electricity and natural gas.
(2) Developer fees (available for debt service), earnings on Electric Utility Fund balance plus earnings on the Acquisition Fund, Debt Service Fund and the Reserve Fund for the electric system certificates of participation. Large increase in 2006 is due to a termination payment of AEP of $6.4 million.
(3) Excludes depreciation and amortization expenses.
(4) This fluctuates in relation to the volume of wholesale revenue in a given year.
(5) This represents the amount of unrestricted funds in the Electric Revenue Fund available to pay maintenance and operation costs and/or annual debt service.
(6) Represents 1% of installed assets with selected depreciation.
(7) Includes payments under the installment purchase contracts securing the electric system certificates of participation.
(8) Available for capital expenditures and other lawful purposes.
(9) Funds available for Debt Service divided by Debt Service.
(10) Net Revenues divided by Debt Service. The documents pursuant to which Redding's outstanding electric system certificates of participation were issued have no requirement respecting current debt service coverage. In recent years, Redding has been utilizing a portion of its cash reserves to fund part of its annual costs. See "Rates and Charges" above.

Source: City of Redding.

CITY OF REDDING
ELECTRIC SYSTEM FUND
CONDENSED BALANCE SHEET

	Fiscal Year Ending June 30,				
	2006	2007	2008	2009	2010
Assets:					
Net Utility Plant	$164,981,665	$162,334,767	$174,138,758	$197,865,420	$212,665,788
Restricted Assets	34,406,250	35,607,016	91,486,496	60,518,586	29,283,320
Current Assets	78,947,318	73,691,199	73,752,309	59,908,847	60,441,262
Non-Current Assets	12,627,489	11,400,292	10,669,766	9,464,876	7,230,621
Total Assets	$290,962,722	$283,033,274	$350,047,329	$327,757,729	$309,620,991
Liabilities and Equity:					
Current Liabilities	$ 18,357,355	$ 21,072,985	$ 31,000,180	$ 28,516,908	$ 22,633,431
Restricted Liabilities	2,125,924	2,141,814	3,610,368	5,368,845	9,082,148
Retained Earnings(1)	154,647,850	147,794,486	137,439,841	120,357,878	109,009,156
Long Term Debt	115,831,593	112,023,989	177,996,940	173,514,098	168,896,256
Total Liabilities and Equity	$290,962,722	$283,033,274	$350,047,329	$327,757,729	$309,620,991

(1) Retained Earnings include contributed capital which represents improvements built by developers at no cost to the electric system and amounts contributed by other municipal departments.
(2) Increase due to issuance of 2008A Certificates of Participation, the proceeds of which were not fully utilized by June 30, 2008.

Source: City of Redding Finance Department.

Management's Discussion of Summary of Operating Results

Redding's electric utility is operated on a non-profit cost-of-service basis so as to provide utility customers with the lowest possible cost of power. Redding's goals are to provide its citizens and businesses with a highly reliable and independent electric utility that is managed locally by the Redding City Council for the benefit of all of its owner/customers.

Redding is the primary retail, services, and healthcare hub in Northern California, from north of Sacramento to Portland Oregon. The Redding electric system serves a broad and varied base of residential, commercial and industrial customers in which no single customer or industry dominates. Residential customers comprise roughly half of the electric system's annual retail electricity sales. Prior to the recent statewide economic downturn beginning in 2009, Redding's retail load had increased approximately 2% per year for roughly 20 years.

Redding's average system rates are approximately 40% lower than rates charged by the neighboring investor-owned utility (PG&E).

Redding has long been involved in a major expansion, upgrading, and modernization program of its electric system and is continuing to pursue a strategy established in the early 1990s, when Redding began the process of expanding its local generation capabilities. The electric system consistently receives high marks for service reliability and customer satisfaction based upon published System Average Interruption Duration Index and System Average Frequency Interruption Index for electric utilities and upon the American Public Power Association's Customer & Field Services Benchmarking Survey.

As a complementary strategy in support of its local generation strategy, Redding pursues a formal gas acquisition and management program to attempt to achieve the lowest possible commodity costs for its gas-fired generators.

In 2010, Redding negotiated a long-term contract for natural gas storage. This is a 28-year contract for 600,000 Decatherms (Dth) of natural gas storage

Redding continues to aggressively seek wholesale sales opportunities to market its own excess energy and natural gas, and has grown highly sophisticated in competing in buy/sell markets where Redding is both a purchaser and seller in the spot power market. As in the past, future revenues associated with wholesale sales (both electricity and natural gas) will vary year to year, depending upon market pricing and the availability of surplus resources. Redding's natural gas hedging program allows further optimization with the sale of natural gas whenever it is more beneficial to sell gas and buy electricity. The costs associated with wholesale revenue will also vary year to year, depending upon the source of wholesale energy sold to market. Redding integrates its expected wholesale purchases and sales in its financial projections for future years.

It has been the practice of the electric system to make monthly contributions in-lieu of taxes to City General Fund, in addition to paying its proportionate share of the City's operating expenses attributable to the electric system. Redding's in-lieu tax formula is currently applied equitably to all of its enterprise funds and represents 1% of installed assets with selected depreciation. For the electric system, this formula includes the system's share of joint powers agency installed assets, and currently results in an in-lieu payment of approximately 6.0% of budgeted retail revenues.

In support of its wholesale endeavors, the electric system has a formal Power Transaction Risk Management Committee ("RMC") that was established September 17, 2001. The RMC's written Policies, Practices, and Procedures were approved October 21, 2002. The RMC meets weekly to review power transactions to confirm conformance with the Policies, Practices, and Procedures and to assess new and ongoing counter-party credits to establish or confirm appropriate credit limits. Reflective of the RMC's efforts, Redding has never experienced a loss as a result of credit quality or transaction performance defaults.

The unaudited financial operating statement for the seven month period ended January 31, 2011, prepared by staff for presentation to the Redding City Council showed positive net operating results of $12,752,869. This figure is $6,737,605 better than the projected negative net operating results of $6,015,264 for that period. Higher than average hydroelectric deliveries, along with lower than anticipated costs of energy, contributed to this positive result. The statement also showed the Electric Utility Fund balance for the seven month period ended January 31, 2011 was $37.4 million compared with the $33.6 million end balance for fiscal year ended June 30, 2010. The unrestricted cash balance for the seven month period ended January 31, 2011 was $27.4 million compared with the $25.6 million end balance for fiscal year ended June 30, 2010.

Redding's Initiatives Since Industry Restructuring

General. In addressing the changing legal and business environment under electric utility restructuring in California, Redding has developed a strategy for the electric utility to operate in a competitive environment. The strategic plan calls for Redding to acquire adequate resources to meet customer demands while maintaining WECC recommended planning and operating reserves, develop an aggressive renewable resource portfolio, manage natural gas and other market risks through a diversified resource portfolio, reduce outstanding debt, minimize operating expenses, maximize wholesale sales revenue and improve customer service.

Debt Reduction Initiatives. The Redding City Council imposed an interim rate surcharge of 23% for the period April 1997 through June 30, 2002 to eliminate approximately $197.8 million of the electric system's debt. On July 1, 2002, the surcharge was eliminated. See "Rates and Charges" above. The interim rate surcharge increased net operating revenues substantially, allowing excess revenues to be accumulated in reserves. Redding used these funds primarily for the retirement of electric system indebtedness and other lawful purposes. As of June 30, 2010, the balance of the unrestricted cash reserves in the Electric Utility Fund was approximately $25.6 million. Redding has also worked with M-S-R PPA and TANC to restructure those agencies' outstanding indebtedness to achieve additional debt service savings.

Power Resources. The strategic plan outlines a framework for maximizing the use and value of Redding's power resources, reducing operating costs, and increasing nontraditional revenue for Redding. At this time, Redding has taken the following steps. First, Redding took the necessary steps to ensure that its contract with Western would continue for another 20 years beyond the 2004 termination date. On September 11, 2000, the base contract with Western was completed. In addition, in order to further assure Redding's resource portfolio, Redding has developed additional generation capacity at the Redding Power Plant and executed a long-term power purchase agreement with

AEP to address Redding's post-2004 need for additional energy to replace the energy lost under Western's "slice of system" base resource contract. See "Power Supply Resources" above. The two projects, as incorporated into Redding's existing resource portfolio, provide Redding with a well-diversified complement of resources, located both locally and regionally, utilizing a mixture of natural gas, coal, and hydro as fuel sources. Additionally, Redding has developed a natural gas portfolio, including the gas to be purchased by Redding pursuant to the Supply Agreement related to Redding, that is diversified between short and long term fixed price commitments to both natural gas product and gas transportation pipelines. Such an approach has been implemented to protect Redding from the most volatile swings in the market cost of natural gas. Second, Redding is actively making efforts to maximize the value of its rights through joint power agencies in certain high voltage transmission projects in the TANC COTP and M-S-R PPA's Southwest Transmission Project. Redding has also continued to develop its local generation capability.

Finally, under its Renewable Resource Portfolio Standard recently adopted by the Redding City Council, Redding is purchasing and/or developing renewable resources that meet the Redding City Council's approved standards, which include hydro, wind, biomass, local solar photovoltaic and solar thermal projects, ground source heat pump projects and ice storage/peak reduction projects. Redding's resource decisions have been made in an effort to aggressively round out Redding's resource portfolio with a balanced mix of conventional and renewable resources.

Customer Base. Redding has increased its energy services staff and is well into the process of reinvigorating its customer service philosophy and procedures to better serve the retail customers of the utility, to increase awareness of the benefits of the electric utility, to help reduce customer costs and to increase customer productivity. Redding also began an extensive "branding" campaign, using the acronym REU trademark comprising a distinctive logo and slogan "Smart Service, Bright Ideas." Redding has developed a Key Accounts program, focusing on Redding's largest customers. Under the Key Accounts program, designated marketing individuals are assigned to the largest customers, improving communication with these customers and developing rate strategies where applicable. Redding has completed a major upgrade of its customer information system, and has added a number of automated telephone and credit card payment features that allow better service to customers.