

## **CERTIFICATE OF SERVICE**

I, Karen L. Giebink, hereby certify that I have, this 4<sup>th</sup> day of October, 2004 caused a copy of the within Compliance Rate Filing of the Narragansett Bay Commission to be served on the Administrator of the Division of Public Utilities and Carriers and the Office of the Attorney General.

A handwritten signature in black ink, appearing to read 'Karen L. Giebink', is written over a horizontal line.

Karen L. Giebink  
Director of Administration and Finance

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**PUBLIC UTILITIES COMMISSION**

IN RE: NARRAGANSETT BAY COMMISSION  
COMPLIANCE FILING OF October 4, 2004

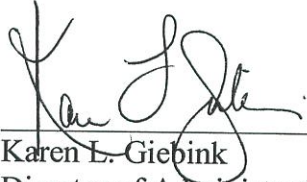
**NOTICE OF CHANGE IN RATE SCHEDULES**

Pursuant to R.I.G.L. SECTION 39-3-11, and in accordance with Rule 1.9 and Part Two of the Rules of Practice and Procedure of the Rhode Island Public Utilities Commission ("Commission"), the Narragansett Bay Commission ("NBC") hereby gives notice of proposed changes in rates, which we previously filed and published in compliance with R.I.G.L., Section 39-3-10.

The proposed changes are contained in the accompanying Exhibits. The new residential and non-residential rates, as proposed, are to become effective July 1, 2005. The new rates are designed to collect revenues in a 12-month period equal to \$60,931,773.

- 1) NBC is a public corporation of the State of Rhode Island, created by chapter 25 of title 46 of the Rhode Island General Laws, and having a distinct legal existence separate from the State, NBC's principal address is Narragansett Bay Commission, One Service Road, Providence, RI 02905. Pursuant to the Chapter 25 of Title 46, NBC is authorized to do business within the State of Rhode Island.
- 2) Correspondence in accordance with Rule 1.9 (a)(2) should be addressed to Karen Giebink, Director of Administration and Finance, Narragansett Bay Commission, One Service Road, Providence, RI, 02903 and Peter McGinn Legal Counsel, Tillinghast, Licht, Perkins, Smith, & Cohen LLP, 10 Weybosset Street, Providence, RI, 02908-2818.
- 3) In accordance with rule 1.9 and part Two of the Rules, the documents accompanying this filing contain data, information and testimony in support of NBC's application.

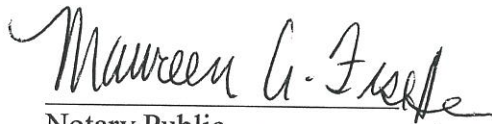
- 4) A copy of the materials herewith filed has been sent to the Administrator of the Division and the Attorney General for the State of Rhode Island.



Karen L. Giebink  
Director of Administration and Finance  
Narragansett Bay Commission

STATE OF RHODE ISLAND  
COUNTY OF PROVIDENCE

Subscribed and sworn to before me on this the 4<sup>th</sup> day of October 2004, Pursuant the PUC Rule 1.9.



Notary Public

MAUREEN A. FISSETTE  
COMMISSION EXPIRES - 7-30-0.

## Existing Tariffs

### TARIFFS OF THE NARRAGANSETT BAY COMMISSION

#### SCHEDULE A

#### NARRAGANSETT BAY COMMISSION

**EFFECTIVE:** Flat Fees: October 1, 2004  
Consumption Fees: October 1, 2004

#### Applicability

Applicable throughout the entire territory served by the Field's Point and Bucklin Point Wastewater Treatment Facilities and operated by the Narragansett Bay Commission.

#### Sewer Use Fee Schedule

##### RESIDENTIAL

All residential structures up to and including six (6) dwelling units.

All residential condominiums will be billed under residential tariffs regardless of the number of dwelling units per structure/meter.

##### **NBC Service Area**

##### **FIXED FEE:**

\$83.70 per dwelling unit per year

##### **CONSUMPTION FEE:**

\$1.722/hundred cubic feet of 100% of water used

##### **Residential Well Customers**

\$251.77 (based upon fixed fee and average usage of 200 gpd)

##### INDUSTRIAL

All structures in which water is utilized for the production and/or manufacturing based operations including non-contact cooling water.

##### **FIXED FEES**

##### **METER SIZE**

##### **FIXED FEE**

5/8"	\$ 188.00
3/4"	\$ 281.00
1"	\$ 468.00
1 1/2"	\$ 937.00
2"	\$ 1,499.00
3"	\$ 2,810.00
4"	\$ 4,683.00
6"	\$ 9,367.00
8"	\$ 14,987.00
10"	\$ 21,544.00

##### **CONSUMPTION FEE:**

##### **NBC Service Area:**

\$1.605/hundred cubic feet of 100% of water used.

## Existing Tariffs

### **COMMERCIAL**

All other structures. This includes mixed use structures (i.e., combined residential/non-residential) and half-way houses and/or boarding type facilities where unrelated persons rent rooms.

### **FIXED FEES**

### **METER SIZE**

### **FIXED FEE**

5/8"	\$ 188.00
3/4"	\$ 281.00
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3"	\$ 2,810.00
4"	\$ 4,683.00
6"	\$ 9,367.00
8"	\$ 14,987.00
10"	\$ 21,544.00

### **NBC Service Area:**

\$2.495/hundred cubic feet of 100% of water used.

### **BILLING**

**Residential** - Fixed fee bills rendered to property owners quarterly. Consumption bills rendered to property owners as usage data is supplied by the appropriate Water Supply Board.

**Condominiums (residential)** - Fixed fee to be rendered to property owners and/or associations, quarterly. Consumption bills rendered to property owners and/or associations as usage data is supplied by the appropriate Water Supply Board.

**Industrial** - Fixed fee to be rendered to property owners quarterly. Consumption bills rendered to property owners as usage data is supplied by the appropriate Water Supply Board.

**Commercial** - Fixed fee to be rendered to property owners quarterly. Consumption bills rendered to property owners monthly, quarterly and/or semi-annually as usage data is supplied by the appropriate Water Supply Board.

**Industrial Surcharge** - If any, to be billed with consumption.

### **PAYMENT**

All bills are due and payable upon receipt. A late charge penalty of twelve per cent (12%) per annum will be levied after thirty (30) days from the billing date.

## TARIFFS OF THE NARRAGANSETT BAY COMMISSION

**SCHEDULE B****NARRAGANSETT BAY COMMISSION**

**EFFECTIVE:** Pretreatment Annual Permit Fee: June 30, 2003  
 New Sewer Connection Fee: October 1, 2004  
 BOD/TSS Surcharge: June 30, 2003  
 Septic Tank Waste Discharge Fee: June 30, 2003  
 Sewer Back-up Removal Fee: March 24, 1995  
 Abatement Application Fee: January 29, 2001

**Miscellaneous Charges**

1. Pretreatment Annual Permit Fee: Applicable to all users regulated under R.I.G.L. 46-25-25 and the NBC's Rules and Regulations.

<b>CAT #</b>	<b>User Classification</b>	<b>Permit Fee</b>
<b>11</b>	<b>Electroplater/Metalfinisher</b>	
	Flow < 2,500 GPD	\$1,811
	Flow ≥ 2,500 < 10,000 GPD	\$3,623
	Flow ≥ 10,000 GPD < 50,000	\$7,246
	Flow ≥ 50,000 GPD < 100,000 GPD	\$10,144
	Flow ≥ 100,000	\$10,869
<b>12</b>	<b>Metal Molding and Casting</b>	\$1,087
<b>13</b>	<b>Organic Chemical Manufacturers</b>	\$7,246
<b>14</b>	<b>Other Categorical Industries</b>	\$1,087
<b>15</b>	<b>Metal Formers</b>	\$5,797
<b>21</b>	<b>Tubbing/Vibratory/Mass Finishing</b>	
	Flow < 5,000 GPD	\$725
	Flow ≥ 5,000 GPD	\$1,449
<b>22</b>	<b>Chemical Transporters, Refiners, Recyclers, Manufacturers</b>	\$2,898
<b>23</b>	<b>Textile Processing Firms</b>	
	Flow < 2,500 GPD	\$1,449
	Flow ≥ 2,500 < 10,000 GPD	\$3,768
	Flow ≥ 10,000 < 50,000	\$5,072
	Flow ≥ 50,000 GPD	\$7,246

## Existing Tariffs

CAT #	User Classification	Permit Fee
<b>24</b>	<b>Printers</b>	
	Gravure	\$3,623
	Other Flow $\geq$ 2,500 GPD	\$1,087
	Other Flow < 2,500 GPD	\$725
<b>25</b>	<b>Industrial Laundries</b>	\$3,623
<b>26</b>	<b>Machine Shops/Machinery Rebuilders</b>	\$1,449
<b>27</b>	<b>Other firms discharging toxics and/or prohibited pollutants</b>	
	Flow $\geq$ 10,000 GPD	\$2,898
	Flow $\geq$ 2,500 GPD < 10,000 GPD	\$1,449
	Flow < 2,500 GPD	\$725
<b>28</b>	<b>Central Treatment Facilities - Hazardous Waste</b>	\$14,492
<b>29</b>	<b>Central Treatment Facilities - Non-Hazardous Waste</b>	\$4,348
<b>34</b>	<b>Manufacturers with high BOD/TSS wastestreams</b>	
	Flow $\geq$ 100,000 GPD	\$5,797
	50,000 GPD $\leq$ Flow < 100,000 GPD	\$3,623
	10,000 GPD $\leq$ Flow < 50,000 GPD	\$1,811
	Flow < 10,000 GPD	\$1,087
<b>35</b>	<b>Other facilities discharging conventional pollutants</b>	
	Flow $\geq$ 10,000 GPD	\$1,449
	Flow < 10,000 GPD	\$725
<b>37</b>	<b>Automotive Maintenance/Service Facilities</b>	
	Small $\leq$ 2 Bays	\$435
	Large $\geq$ 3 Bays	\$1,449
<b>40</b>	<b>Groundwater Remediation/Excavation Projects</b>	
	Flow $\geq$ 10,000 GPD	\$1,449
	Flow < 10,000 GPD	\$725
<b>41</b>	<b>Recycle or Disconnected Electroplating or Chemical Processes</b>	\$725

## Existing Tariffs

<b>CAT #</b>	<b>User Classification</b>	<b>Permit Fee</b>
<b>42</b>	<b>Other Process Operations Disconnected or Recycled</b>	\$290
<b>43</b>	<b>Recycle or Disconnected Electroplating or Chemical Processes with Cooling Water or Boiler Discharges</b>	\$870
<b>44</b>	<b>Other Recycled or Disconnected Process Operations with Cooling Water or Boiler Discharges</b>	\$362
<b>46</b>	<b>Cooling Water with Solvent, Toxic and/or Hazardous Chemicals on Site</b>	\$362
<b>49</b>	<b>Other Discharges with Solvents, Toxics and/or Hazardous Chemicals on Site</b>	
	Flow $\geq$ 10,000 GPD	\$1,087
	Flow $<$ 10,000 GPD	\$725
<b>51</b>	<b>Cooling Water with No Solvents, Toxic or Hazardous Chemicals on Site</b>	\$362
<b>52</b>	<b>Boiler Blowdown/Condensate Discharges</b>	\$362
<b>53</b>	<b>Cooling Tower Discharges</b>	\$362
<b>59</b>	<b>Other Non-Toxic Industrial Discharges</b>	
	Flow $\geq$ 5,000 GPD	\$725
	Flow $<$ 5,000 GPD	\$362
<b>80</b>	<b>Septage Haulers/Dischargers</b>	\$435
<b>81</b>	<b>Food/Fish/Meat/Produce Processing (wholesale)</b>	
	Flow $<$ 1,000 GPD	\$362
	1,000 GPD $\leq$ Flow $<$ 10,000 GPD	\$725
	Flow $\geq$ 10,000 GPD	\$1,449
<b>82</b>	<b>Supermarkets (Retail Food Processing)</b>	\$725
<b>83</b>	<b>Parking Garages/Lots</b>	\$725



## Existing Tariffs

CAT #	User Classification	Permit Fee
84	<b>Cooling Water/Groundwater/ Boiler Discharges with Potential to Discharge Conventional Pollutants</b>	\$362
85	<b>Restaurants</b>	
	< 50 seats	\$217
	≥ 50 seats < 100 seats	\$435
	>100 seats of fast food ( 2 or more fryolators and/or drive through window)	\$580
86	<b>Commercial Buildings with Cafeteria and/or laundry operations</b>	\$725
89	<b>Other Commercial Facilities with Potential to Discharge Conventional Pollutants</b>	
	< 2,500 GPD	\$362
	≥ 2,500 GPD	\$725
90	<b>Hospitals</b>	\$3,623
91	<b>Cooling Water/Groundwater/ Boiler Discharges with Potential to Discharge Toxic, Prohibited and/or Conventional Pollutants</b>	\$362
92	<b>Laundries/Dry Cleaners</b>	
	Laundromats	\$725
	Dry Cleaners with 1 washer or less	\$362
	Dry Cleaners with ≥ 2 washers	\$725
93	<b>Photo Processing</b>	
	< 1,000 GPD	\$362
	1,000 GPD ≤ Flow < 2,500	\$725
	2,500 GPD - 5,000 GPD	\$1,087
	> 5,000 GPD	\$1,449
94	<b>X-Ray Processing</b>	
	≤ 2 processors	\$362
	3 - 4 processors	\$725
	5 - 9 processors	\$1,087
	≥ 10 processors	\$1,449

## Existing Tariffs

CAT #	User Classification	Permit Fee
95	<b>Clinical, Medical and Analytical Laboratories</b>	\$725
96	<b>Funeral Homes/Enbalming Operations</b>	\$362
97	<b>Motor Vehicle Service/Washing Operations</b>	
	rate per tunnel	\$725
	rate per bay	\$217
	maximum rate per facility	\$1,449
99	<b>Other Commercial Users with Potential to Discharge Toxic, Prohibited and/or Conventional Pollutants</b>	
	Flow < 2,500 GPD	\$362
	Flow ≥ 2,500 GPD	\$725

**NOTE: All flow rates are based upon operating days.**

2. **New Sewer Connection Fee:** Applicable to all applications for a new service connection directly or indirectly to NBC facilities. Payable at the time of application.

Residential	\$231 per connection
Commercial	\$691 per connection
Industrial	\$691 per connection

3. **Sewer Back-up Removal Fee:** Applicable to all visits by Commission personnel to clear a sewer blockage when such blockage is determined to be a private sewer and is cleared by Commission personnel.

Charge: \$75.00 per incident

4. **Septic Tank Waste Discharge Fee:** Applicable to all discharges of septic tank waste into the NBC system.

Charge: \$51.00 per thousand gallons

5. **BOD/TSS Surcharge:** \$87.00/1,000 pounds of BOD with a concentration above 300 mg/l \$87.00/1,000 pounds of TSS with a concentration above 300 mg/l  
(if applicable)

To be assessed as the result of compliance with an industrial permit or NBC requirement.

6. **Abatement Application Fee:** Applicable to all applicants who request an abatement to sewer user fees charged. Payable at the time of application.

Charge: \$36.00

# Marked-Up Tariffs

## TARIFFS OF THE NARRAGANSETT BAY COMMISSION

### SCHEDULE A

#### NARRAGANSETT BAY COMMISSION

**EFFECTIVE:** Flat Fees: ~~October 1, 2004~~ July 1, 2005  
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#### Applicability

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#### Sewer Use Fee Schedule

##### RESIDENTIAL

All residential structures up to and including six (6) dwelling units.

All residential condominiums will be billed under residential tariffs regardless of the number of dwelling units per structure/meter.

##### **NBC Service Area**

##### **FIXED FEE:**

~~\$83.70~~ \$94.38 per dwelling unit per year

##### **CONSUMPTION FEE:**

~~\$1.722~~ \$1.942/hundred cubic feet of 100% of water used

##### **Residential Well Customers**

~~\$251.77~~ \$283.92 (based upon fixed fee and average usage of 200 gpd)

##### INDUSTRIAL

All structures in which water is utilized for the production and/or manufacturing based operations including non-contact cooling water.

##### **FIXED FEES**

##### **METER SIZE**

##### **FIXED FEE**

5/8"	<del>\$ 188.00</del> <u>\$212.00</u>
3/4"	<del>\$ 281.00</del> <u>\$317.00</u>
1"	<del>\$ 468.00</del> <u>\$528.00</u>
1 1/2"	<del>\$ 937.00</del> <u>\$1,057.00</u>
2"	<del>\$ 1,499.00</del> <u>\$1,690.00</u>
3"	<del>\$ 2,810.00</del> <u>\$3,168.00</u>
4"	<del>\$ 4,683.00</del> <u>\$5,280.00</u>
6"	<del>\$ 9,367.00</del> <u>\$10,562.00</u>
8"	<del>\$ 14,987.00</del> <u>\$16,899.00</u>
10"	<del>\$ 21,544.00</del> <u>\$24,292.00</u>

##### **CONSUMPTION FEE:**

##### **NBC Service Area:**

~~\$1.605~~ \$1.810/hundred cubic feet of 100% of water used.

## Marked-Up Tariffs

### COMMERCIAL

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10"	<del>\$ 21,544.00</del> <u>\$24,292.00</u>

**NBC Service Area:**

~~\$2.495~~ \$2.813/hundred cubic feet of 100% of water used.

### **BILLING**

**Residential** - Fixed fee bills rendered to property owners quarterly. Consumption bills rendered to property owners as usage data is supplied by the appropriate Water Supply Board.

**Condominiums (residential)** - Fixed fee to be rendered to property owners and/or associations, quarterly. Consumption bills rendered to property owners and/or associations as usage data is supplied by the appropriate Water Supply Board.

**Industrial** - Fixed fee to be rendered to property owners quarterly. Consumption bills rendered to property owners as usage data is supplied by the appropriate Water Supply Board.

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**Industrial Surcharge** - If any, to be billed with consumption.

### **PAYMENT**

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TARIFFS OF THE NARRAGANSETT BAY COMMISSION

**SCHEDULE B**

**NARRAGANSETT BAY COMMISSION**

**EFFECTIVE:** Pretreatment Annual Permit Fee: June 30, 2003  
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**Miscellaneous Charges**

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	Flow ≥ 2,500 < 10,000 GPD	\$3,623
	Flow ≥ 10,000 GPD < 50,000	\$7,246
	Flow ≥ 50,000 GPD < 100,000 GPD	\$10,144
	Flow ≥ 100,000	\$10,869
<b>12</b>	<b>Metal Molding and Casting</b>	\$1,087
<b>13</b>	<b>Organic Chemical Manufacturers</b>	\$7,246
<b>14</b>	<b>Other Categorical Industries</b>	\$1,087
<b>15</b>	<b>Metal Formers</b>	\$5,797
<b>21</b>	<b>Tubbing/Vibratory/Mass Finishing</b>	
	Flow < 5,000 GPD	\$725
	Flow ≥ 5,000 GPD	\$1,449
<b>22</b>	<b>Chemical Transporters, Refiners, Recyclers, Manufacturers</b>	\$2,898
<b>23</b>	<b>Textile Processing Firms</b>	
	Flow < 2,500 GPD	\$1,449
	Flow ≥ 2,500 < 10,000 GPD	\$3,768
	Flow ≥ 10,000 < 50,000	\$5,072
	Flow ≥ 50,000 GPD	\$7,246

## Marked-Up Tariffs

<b>CAT #</b>	<b>User Classification</b>	<b>Permit Fee</b>
<b>24</b>	<b>Printers</b>	
	Gravure	\$3,623
	Other Flow $\geq$ 2,500 GPD	\$1,087
	Other Flow < 2,500 GPD	\$725
<b>25</b>	<b>Industrial Laundries</b>	\$3,623
<b>26</b>	<b>Machine Shops/Machinery Rebuilders</b>	\$1,449
<b>27</b>	<b>Other firms discharging toxics and/or prohibited pollutants</b>	
	Flow $\geq$ 10,000 GPD	\$2,898
	Flow $\geq$ 2,500 GPD < 10,000 GPD	\$1,449
	Flow < 2,500 GPD	\$725
<b>28</b>	<b>Central Treatment Facilities - Hazardous Waste</b>	\$14,492
<b>29</b>	<b>Central Treatment Facilities - Non-Hazardous Waste</b>	\$4,348
<b>34</b>	<b>Manufacturers with high BOD/TSS wastestreams</b>	
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	10,000 GPD $\leq$ Flow < 50,000 GPD	\$1,811
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<b>35</b>	<b>Other facilities discharging conventional pollutants</b>	
	Flow $\geq$ 10,000 GPD	\$1,449
	Flow < 10,000 GPD	\$725
<b>37</b>	<b>Automotive Maintenance/Service Facilities</b>	
	Small $\leq$ 2 Bays	\$435
	Large $\geq$ 3 Bays	\$1,449
<b>40</b>	<b>Groundwater Remediation/Excavation Projects</b>	
	Flow $\geq$ 10,000 GPD	\$1,449
	Flow < 10,000 GPD	\$725
<b>41</b>	<b>Recycle or Disconnected Electroplating or Chemical Processes</b>	\$725

## Marked-Up Tariffs

<b>CAT #</b>	<b>User Classification</b>	<b>Permit Fee</b>
<b>42</b>	<b>Other Process Operations Disconnected or Recycled</b>	\$290
<b>43</b>	<b>Recycle or Disconnected Electroplating or Chemical Processes with Cooling Water or Boiler Discharges</b>	\$870
<b>44</b>	<b>Other Recycled or Disconnected Process Operations with Cooling Water or Boiler Discharges</b>	\$362
<b>46</b>	<b>Cooling Water with Solvent, Toxic and/or Hazardous Chemicals on Site</b>	\$362
<b>49</b>	<b>Other Discharges with Solvents, Toxics and/or Hazardous Chemicals on Site</b>	
	Flow $\geq$ 10,000 GPD	\$1,087
	Flow $<$ 10,000 GPD	\$725
<b>51</b>	<b>Cooling Water with No Solvents, Toxic or Hazardous Chemicals on Site</b>	\$362
<b>52</b>	<b>Boiler Blowdown/Condensate Discharges</b>	\$362
<b>53</b>	<b>Cooling Tower Discharges</b>	\$362
<b>59</b>	<b>Other Non-Toxic Industrial Discharges</b>	
	Flow $\geq$ 5,000 GPD	\$725
	Flow $<$ 5,000 GPD	\$362
<b>80</b>	<b>Septage Haulers/Dischargers</b>	\$435
<b>81</b>	<b>Food/Fish/Meat/Produce Processing (wholesale)</b>	
	Flow $<$ 1,000 GPD	\$362
	1,000 GPD $\leq$ Flow $<$ 10,000 GPD	\$725
	Flow $\geq$ 10,000 GPD	\$1,449
<b>82</b>	<b>Supermarkets (Retail Food Processing)</b>	\$725
<b>83</b>	<b>Parking Garages/Lots</b>	\$725

## Marked-Up Tariffs

CAT #	User Classification	Permit Fee
<b>84</b>	<b>Cooling Water/Groundwater/ Boiler Discharges with Potential to Discharge Conventional Pollutants</b>	\$362
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	< 50 seats	\$217
	≥ 50 seats < 100 seats	\$435
	>100 seats of fast food ( 2 or more fryolators and/or drive through window)	\$580
<b>86</b>	<b>Commercial Buildings with Cafeteria and/or laundry operations</b>	\$725
<b>89</b>	<b>Other Commercial Facilities with Potential to Discharge Conventional Pollutants</b>	
	< 2,500 GPD	\$362
	≥ 2,500 GPD	\$725
<b>90</b>	<b>Hospitals</b>	\$3,623
<b>91</b>	<b>Cooling Water/Groundwater/ Boiler Discharges with Potential to Discharge Toxic, Prohibited and/or Conventional Pollutants</b>	\$362
<b>92</b>	<b>Laundries/Dry Cleaners</b>	
	Laundromats	\$725
	Dry Cleaners with 1 washer or less	\$362
	Dry Cleaners with ≥ 2 washers	\$725
<b>93</b>	<b>Photo Processing</b>	
	< 1,000 GPD	\$362
	1,000 GPD ≤ Flow < 2,500	\$725
	2,500 GPD - 5,000 GPD	\$1,087
	> 5,000 GPD	\$1,449
<b>94</b>	<b>X-Ray Processing</b>	
	≤ 2 processors	\$362
	3 - 4 processors	\$725
	5 - 9 processors	\$1,087
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## Marked-Up Tariffs

CAT #	User Classification	Permit Fee
95	Clinical, Medical and Analytical Laboratories	\$725
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97	Motor Vehicle Service/Washing Operations	
	rate per tunnel	\$725
	rate per bay	\$217
	maximum rate per facility	\$1,449
99	Other Commercial Users with Potential to Discharge Toxic, Prohibited and/or Conventional Pollutants	
	Flow < 2,500 GPD	\$362
	Flow ≥ 2,500 GPD	\$725

**NOTE: All flow rates are based upon operating days.**

2. **New Sewer Connection Fee:** Applicable to all applications for a new service connection directly or indirectly to NBC facilities. Payable at the time of application.

Residential	<del>\$231</del> -\$260 per connection
Commercial	<del>\$69+</del> -\$779 per connection
Industrial	<del>\$69+</del> -\$779 per connection

3. **Sewer Back-up Removal Fee:** Applicable to all visits by Commission personnel to clear a sewer blockage when such blockage is determined to be a private sewer and is cleared by Commission personnel.

Charge: \$75.00 per incident

4. **Septic Tank Waste Discharge Fee:** Applicable to all discharges of septic tank waste into the NBC system.

Charge: \$51.00 per thousand gallons

5. **BOD/TSS Surcharge:** \$87.00/1,000 pounds of BOD with a concentration above 300 mg/l \$87.00/1,000 pounds of TSS with a concentration above 300 mg/l  
(if applicable)

To be assessed as the result of compliance with an industrial permit or NBC requirement.

6. **Abatement Application Fee:** Applicable to all applicants who request an abatement to sewer user fees charged. Payable at the time of application.

Charge: \$36.00

## Proposed Tariffs

### TARIFFS OF THE NARRAGANSETT BAY COMMISSION

#### SCHEDULE A

#### NARRAGANSETT BAY COMMISSION

**EFFECTIVE:** Flat Fees: July 1, 2005  
Consumption Fees: July 1, 2005

#### Applicability

Applicable throughout the entire territory served by the Field's Point and Bucklin Point Wastewater Treatment Facilities and operated by the Narragansett Bay Commission.

#### Sewer Use Fee Schedule

#### RESIDENTIAL

All residential structures up to and including six (6) dwelling units.

All residential condominiums will be billed under residential tariffs regardless of the number of dwelling units per structure/meter.

#### **NBC Service Area**

#### **FIXED FEE:**

\$94.38 per dwelling unit per year

#### **CONSUMPTION FEE:**

\$1.942/hundred cubic feet of 100% of water used

#### **Residential Well Customers**

\$283.92 (based upon fixed fee and average usage of 200 gpd)

#### INDUSTRIAL

All structures in which water is utilized for the production and/or manufacturing based operations including non-contact cooling water.

#### **FIXED FEES**

#### **METER SIZE**

#### **FIXED FEE**

5/8"	\$212.00
3/4"	\$317.00
1"	\$528.00
1 1/2"	\$1,057.00
2"	\$1,690.00
3"	\$3,168.00
4"	\$5,280.00
6"	\$10,562.00
8"	\$16,899.00
10"	\$24,292.00

#### **CONSUMPTION FEE:**

#### **NBC Service Area:**

\$1.810/hundred cubic feet of 100% of water used.

#### COMMERCIAL

## Proposed Tariffs

All other structures. This includes mixed use structures (i.e., combined residential/non-residential) and half-way houses and/or boarding type facilities where unrelated persons rent rooms.

<b>FIXED FEES</b>	<b><u>METER SIZE</u></b>	<b><u>FIXED FEE</u></b>
	5/8"	\$212.00
	3/4"	\$317.00
	1"	\$528.00
	1 1/2"	\$1,057.00
	2"	\$1,690.00
	3"	\$3,168.00
	4"	\$5,280.00
	6"	\$10,562.00
	8"	\$16,899.00
	10"	\$24,292.00

**NBC Service Area:** \$2.813/hundred cubic feet of 100% of water used.

### **BILLING**

**Residential** - Fixed fee bills rendered to property owners quarterly. Consumption bills rendered to property owners as usage data is supplied by the appropriate Water Supply Board.

**Condominiums (residential)** - Fixed fee to be rendered to property owners and/or associations, quarterly. Consumption bills rendered to property owners and/or associations as usage data is supplied by the appropriate Water Supply Board.

**Industrial** - Fixed fee to be rendered to property owners quarterly. Consumption bills rendered to property owners as usage data is supplied by the appropriate Water Supply Board.

**Commercial** - Fixed fee to be rendered to property owners quarterly. Consumption bills rendered to property owners monthly, quarterly and/or semi-annually as usage data is supplied by the appropriate Water Supply Board.

**Industrial Surcharge** - If any, to be billed with consumption.

### **PAYMENT**

All bills are due and payable upon receipt. A late charge penalty of twelve per cent (12%) per annum will be levied after thirty (30) days from the billing date.

## Proposed Tariffs

### TARIFFS OF THE NARRAGANSETT BAY COMMISSION

#### SCHEDULE B

#### NARRAGANSETT BAY COMMISSION

**EFFECTIVE:** Pretreatment Annual Permit Fee: June 30, 2003  
New Sewer Connection Fee: July 1, 2005  
BOD/TSS Surcharge: June 30, 2003  
Septic Tank Waste Discharge Fee: June 30, 2003  
Sewer Back-up Removal Fee: March 24, 1995  
Abatement Application Fee: January 29, 2001

#### Miscellaneous Charges

1. Pretreatment Annual Permit Fee: Applicable to all users regulated under R.I.G.L. 46-25-25 and the NBC's Rules and Regulations.

CAT #	User Classification	Permit Fee
<b>11</b>	<b>Electroplater/Metalfinisher</b>	
	Flow < 2,500 GPD	\$1,811
	Flow ≥ 2,500 < 10,000 GPD	\$3,623
	Flow ≥ 10,000 GPD < 50,000	\$7,246
	Flow ≥ 50,000 GPD < 100,000 GPD	\$10,144
	Flow ≥ 100,000	\$10,869
<b>12</b>	<b>Metal Molding and Casting</b>	\$1,087
<b>13</b>	<b>Organic Chemical Manufacturers</b>	\$7,246
<b>14</b>	<b>Other Categorical Industries</b>	\$1,087
<b>15</b>	<b>Metal Formers</b>	\$5,797
<b>21</b>	<b>Tubbing/Vibratory/Mass Finishing</b>	
	Flow < 5,000 GPD	\$725
	Flow ≥ 5,000 GPD	\$1,449
<b>22</b>	<b>Chemical Transporters, Refiners, Recyclers, Manufacturers</b>	\$2,898
<b>23</b>	<b>Textile Processing Firms</b>	
	Flow < 2,500 GPD	\$1,449
	Flow ≥ 2,500 < 10,000 GPD	\$3,768
	Flow ≥ 10,000 < 50,000	\$5,072
	Flow ≥ 50,000 GPD	\$7,246

## Proposed Tariffs

<b>CAT #</b>	<b>User Classification</b>	<b>Permit Fee</b>
<b>24</b>	<b>Printers</b>	
	Gravure	\$3,623
	Other Flow $\geq$ 2,500 GPD	\$1,087
	Other Flow < 2,500 GPD	\$725
<b>25</b>	<b>Industrial Laundries</b>	\$3,623
<b>26</b>	<b>Machine Shops/Machinery Rebuilders</b>	\$1,449
<b>27</b>	<b>Other firms discharging toxics and/or prohibited pollutants</b>	
	Flow $\geq$ 10,000 GPD	\$2,898
	Flow $\geq$ 2,500 GPD < 10,000 GPD	\$1,449
	Flow < 2,500 GPD	\$725
<b>28</b>	<b>Central Treatment Facilities - Hazardous Waste</b>	\$14,492
<b>29</b>	<b>Central Treatment Facilities - Non-Hazardous Waste</b>	\$4,348
<b>34</b>	<b>Manufacturers with high BOD/TSS wastestreams</b>	
	Flow $\geq$ 100,000 GPD	\$5,797
	50,000 GPD $\leq$ Flow < 100,000 GPD	\$3,623
	10,000 GPD $\leq$ Flow < 50,000 GPD	\$1,811
	Flow < 10,000 GPD	\$1,087
<b>35</b>	<b>Other facilities discharging conventional pollutants</b>	
	Flow $\geq$ 10,000 GPD	\$1,449
	Flow < 10,000 GPD	\$725
<b>37</b>	<b>Automotive Maintenance/Service Facilities</b>	
	Small $\leq$ 2 Bays	\$435
	Large $\geq$ 3 Bays	\$1,449
<b>40</b>	<b>Groundwater Remediation/Excavation Projects</b>	
	Flow $\geq$ 10,000 GPD	\$1,449
	Flow < 10,000 GPD	\$725
<b>41</b>	<b>Recycle or Disconnected Electroplating or Chemical Processes</b>	\$725

## Proposed Tariffs

<b>CAT #</b>	<b>User Classification</b>	<b>Permit Fee</b>
<b>42</b>	<b>Other Process Operations Disconnected or Recycled</b>	\$290
<b>43</b>	<b>Recycle or Disconnected Electroplating or Chemical Processes with Cooling Water or Boiler Discharges</b>	\$870
<b>44</b>	<b>Other Recycled or Disconnected Process Operations with Cooling Water or Boiler Discharges</b>	\$362
<b>46</b>	<b>Cooling Water with Solvent, Toxic and/or Hazardous Chemicals on Site</b>	\$362
<b>49</b>	<b>Other Discharges with Solvents, Toxics and/or Hazardous Chemicals on Site</b>	
	Flow $\geq$ 10,000 GPD	\$1,087
	Flow $<$ 10,000 GPD	\$725
<b>51</b>	<b>Cooling Water with No Solvents, Toxic or Hazardous Chemicals on Site</b>	\$362
<b>52</b>	<b>Boiler Blowdown/Condensate Discharges</b>	\$362
<b>53</b>	<b>Cooling Tower Discharges</b>	\$362
<b>59</b>	<b>Other Non-Toxic Industrial Discharges</b>	
	Flow $\geq$ 5,000 GPD	\$725
	Flow $<$ 5,000 GPD	\$362
<b>80</b>	<b>Septage Haulers/Dischargers</b>	\$435
<b>81</b>	<b>Food/Fish/Meat/Produce Processing (wholesale)</b>	
	Flow $<$ 1,000 GPD	\$362
	1,000 GPD $\leq$ Flow $<$ 10,000 GPD	\$725
	Flow $\geq$ 10,000 GPD	\$1,449
<b>82</b>	<b>Supermarkets (Retail Food Processing)</b>	\$725
<b>83</b>	<b>Parking Garages/Lots</b>	\$725

## Proposed Tariffs

CAT #	User Classification	Permit Fee
84	<b>Cooling Water/Groundwater/ Boiler Discharges with Potential to Discharge Conventional Pollutants</b>	\$362
85	<b>Restaurants</b>	
	< 50 seats	\$217
	≥ 50 seats < 100 seats	\$435
	>100 seats of fast food ( 2 or more fryolators and/or drive through window)	\$580
86	<b>Commercial Buildings with Cafeteria and/or laundry operations</b>	\$725
89	<b>Other Commercial Facilities with Potential to Discharge Conventional Pollutants</b>	
	< 2,500 GPD	\$362
	≥ 2,500 GPD	\$725
90	<b>Hospitals</b>	\$3,623
91	<b>Cooling Water/Groundwater/ Boiler Discharges with Potential to Discharge Toxic, Prohibited and/or Conventional Pollutants</b>	\$362
92	<b>Laundries/Dry Cleaners</b>	
	Laundromats	\$725
	Dry Cleaners with 1 washer or less	\$362
	Dry Cleaners with ≥ 2 washers	\$725
93	<b>Photo Processing</b>	
	< 1,000 GPD	\$362
	1,000 GPD ≤ Flow < 2,500	\$725
	2,500 GPD - 5,000 GPD	\$1,087
	> 5,000 GPD	\$1,449
94	<b>X-Ray Processing</b>	
	≤ 2 processors	\$362
	3 - 4 processors	\$725
	5 - 9 processors	\$1,087
	≥ 10 processors	\$1,449

## Proposed Tariffs

CAT #	User Classification	Permit Fee
95	Clinical, Medical and Analytical Laboratories	\$725
96	Funeral Homes/Enbalming Operations	\$362
97	Motor Vehicle Service/Washing Operations	
	rate per tunnel	\$725
	rate per bay	\$217
	maximum rate per facility	\$1,449
99	Other Commercial Users with Potential to Discharge Toxic, Prohibited and/or Conventional Pollutants	
	Flow < 2,500 GPD	\$362
	Flow ≥ 2,500 GPD	\$725

**NOTE: All flow rates are based upon operating days.**

2. **New Sewer Connection Fee:** Applicable to all applications for a new service connection directly or indirectly to NBC facilities. Payable at the time of application.

Residential	\$260 per connection
Commercial	\$779 per connection
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3. **Sewer Back-up Removal Fee:** Applicable to all visits by Commission personnel to clear a sewer blockage when such blockage is determined to be a private sewer and is cleared by Commission personnel.

Charge: \$75.00 per incident

4. **Septic Tank Waste Discharge Fee:** Applicable to all discharges of septic tank waste into the NBC system.

Charge: \$51.00 per thousand gallons

5. **BOD/TSS Surcharge:** \$87.00/1,000 pounds of BOD with a concentration above 300 mg/l \$87.00/1,000 pounds of TSS with a concentration above 300 mg/l  
(if applicable)

To be assessed as the result of compliance with an industrial permit or NBC requirement.

6. **Abatement Application Fee:** Applicable to all applicants who request an abatement to sewer user fees charged. Payable at the time of application.

Charge: \$36.00



**IN RE:  
NARRAGANSETT BAY COMMISSION  
TARIFF FILING OF October, 2004**

**NARRAGANSETT BAY COMMISSION**

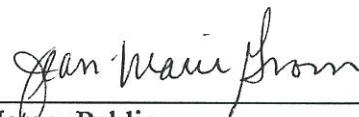
**ATTESTATION**

I, Walter E. Edge, Consulting Department Director of Bacon and Edge, hereby make affidavit that the testimony I presented on behalf of the Narragansett Bay Commission is true and correct to the best of my knowledge, information and belief.

  
Walter E. Edge

STATE OF RHODE ISLAND  
PROVIDENCE, SC.

Subscribed and sworn to before me on this 4th day of October 2004.

  
Notary Public

**COMPLIANCE TESTIMONY OF  
WALTER E. EDGE Jr. MBA CPA  
CONSULTING DEPARTMENT DIRECTOR  
BACON & EDGE p.c.**

**for  
THE NARRAGANSETT BAY COMMISSION**

**GENERAL RATE FILING  
DOCKET # 3483  
COMMISSION ORDER #17558**

**October 2004**

1 **Narragansett Bay Commission**

2  
3 **COMPLIANCE TESTIMONY**  
4 **OF WALTER E. EDGE Jr. MBA, CPA**  
5

6 **Q. Good morning Mr. Edge. Would you please give your name and business**  
7 **address for the record?**

8 A. Certainly, my full name is Walter Edward Edge Jr. MBA CPA and I work for the  
9 firm of Bacon & Edge p.c. at One Worthington Road, Cranston R. I. 02920.  
10

11 **Q. What is Bacon & Edge p.c.?**

12 A. Bacon & Edge p.c. (B&E) is a full service auditing/accounting/consulting firm that  
13 specializes in providing accounting, consulting and tax services to small businesses,  
14 municipalities, utilities and individuals.  
15

16 **Q. Are you the same Walter E. Edge Jr. who has testified as an expert accounting**  
17 **and rate witness in previous rate filings for Narragansett Bay Commission (NBC)**  
18 **and others?**

19 A. Yes. I have provided expert accounting and rate testimony before the Rhode Island  
20 Public Utilities Commission (PUC) for NBC and many other clients. Some of the other  
21 clients include Interstate Navigation Company, Block Island Power Company,  
22 Providence Water Supply Board, Pawtucket Water Supply Board, Newport Water, the  
23 Town of North Smithfield, Osram Sylvania, and Stone Bridge Fire District.  
24

25 **Q. What is the purpose of your testimony?**

26 A. NBC hired B&E to provide compliance testimony seeking a rate increase under the  
27 TECP/VRDO program for the rate year July 1, 2005 to June 30, 2006 which was  
28 approved by the PUC in Docket # 3483 per PUC Order # 17558. B&E was asked to  
29 prepare expert testimony and schedules in support of a rate increase specifically  
30 addressing the compliance requirements of Commission Order # 17558.  
31

1 **Q. Would you please provide a summary of the compliance requirements ordered**  
2 **by the PUC?**

3 A. Certainly. The compliance requirements are spelled out in paragraph four of the  
4 order section of the PUC Order # 17558 as follows:

5  
6 “All compliance filings seeking a rate increase under the TECP/VRDO program  
7 shall:

- 8 1. be filed no later than sixty days prior to its effective date;
- 9 2. be limited for debt service and debt service coverage for CIP projects;
- 10 3. contain a revised limited cost of service schedule reflecting the changes  
11 to the revenue and expense accounts affected by the VRDO/TECP  
12 program;
- 13 4. contain testimony and schedules in support of the debt service and debt  
14 service coverage proposed as well as current and projected annual debt  
15 service payment schedule;
- 16 5. contain a summary of funds currently available for the CIP program and  
17 the projected funding needed for the rate year period;
- 18 6. contain a summary of funding received from Rhode Island Clean Water  
19 Finance Agency (RICWFA), including funds requested, received, the  
20 interest rate, and repayment schedules;
- 21 7. contain a summary of how prior years’ debt service coverage funds were  
22 utilized;
- 23 8. contain a calculation of new rates based on a uniform percentage  
24 increase to rates; and
- 25 9. contain a showing of compliance with prior Commission orders and the  
26 requirements of Section 2.11 of the Commission’s Rule of Practice and  
27 Procedure.

28  
29 **Q. Have you provided all of the information needed to be in compliance with the**  
30 **above listed requirements?**

31 A. Yes I have.  
32

1 **Q. In Docket # 3483 did the PUC pre-approve a revenue requirement increase for**  
2 **FY 2006 (the rate year in this compliance filing)?**

3 A. Yes they did. The PUC approved the calculation of the Division's witness which  
4 provided for a rate increase of 22.74% for FY 2006 (See Schedule TSC-11, a copy has  
5 been included as Attachment A to this testimony).

6  
7 **Q. Is NBC requesting a 22.74% increase in this filing for FY 2006?**

8 A. No they are not. There have been a number of changes since Docket # 3483 which  
9 allows NBC to request a much smaller revenue increase of 12.05% for FY 2006.

10  
11 **Q. Could you explain what you have provided in this testimony to be in compliance**  
12 **with PUC Order # 17558 from Docket # 3483?**

13 A. Yes. Compliance item one requires that any compliance filing be made no later than  
14 sixty days prior to the effective date. NBC is requesting an effective date for this rate  
15 request of July 1, 2005. Therefore, this filing has been filed more than sixty days prior to  
16 the effective date. The reason for filing this request at this time is to facilitate NBC's  
17 newest borrowing with RICWFA (Pool Loan 8).

18  
19 **Q. Is this filing exclusively for debt service and debt service coverage?**

20 A. Yes. NBC is requesting a rate increase that is limited to debt service and debt  
21 service coverage for Capital Improvement Program (CIP) projects as required in  
22 compliance item two. I have prepared schedules to calculate the debt related revenue  
23 requirement for the rate year (See Schedule WEE-1 Adjusted Rate Year Cost of Service  
24 and Schedule WEE-2 Analysis of Annual Debt Service and Required Rate Increase).

25  
26 **Q. Item three of the compliance requirements states that you must file a rate year**  
27 **cost of service schedule. Have you done so?**

28 A. Yes I have. In response to compliance item three, I have provided a limited cost of  
29 service schedule reflecting the changes to the revenue and expense accounts affected by  
30 the rate increase needed for debt service and debt service coverage for FY 2006 (See  
31 Schedule WEE-1). The only adjustments to the test year are for debt and debt service  
32 coverage.

1 **Q. What have you provided in response to compliance item four?**

2 A. My testimony and detail calculation schedule (See Schedule WEE-2) explain the rate  
3 increase needed to support the debt service and debt service coverage of the rate year in  
4 compliance with item four. I have also provided the projected annual debt service  
5 payment schedules (See Schedule WEE-7).

6  
7 **Q. Mr. Edge, compliance item number five requests an accounting of “currently  
8 available” funds for the CIP program. Can you update the Commission as to what  
9 funds are available for the CIP program and the source of those funds?**

10 A. Yes. The majority of the “currently available” funds for the CIP program are in the  
11 Project Fund held in trust by NBC’s Trustee (JP Morgan Trust Company). As of  
12 September 30, 2004, NBC had available in its Project Fund approximately \$57,000,000  
13 along with a credit limit of approximately \$1,700,000 remaining on RICWFA’s Pool  
14 Loan 7. The Project Fund balance includes proceeds from the Variable Rate Demand  
15 Obligation financing (\$70,000,000 less the repayment of the \$40,000,000 Bond  
16 Anticipation Notes due May 6, 2004), the balance of the BAN proceeds and the  
17 Operating Capital Account (funded by prior year debt service coverage). It should be  
18 noted that NBC is spending project funds at a rate of six to seven million dollars a month  
19 so these balances may be significantly less by the time of the hearings in this docket.

20  
21 **Q. Where did the proceeds in the Debt Service Fund come from?**

22 A. The Debt Service Fund consists of three accounts which are the State Debt  
23 Obligation Account, Debt Service Payment Account, and the Stabilization Account. The  
24 funds in these accounts are the revenues collected for the debt service and debt service  
25 coverage less debt service payments and transfers to the Operating Capital Account.  
26 Based on information provided by NBC, I have prepared Schedule WEE-3 that shows the  
27 summary activity in the Debt Service fund and the Operating Capital Account (restricted  
28 capital) from July 1, 2003 through September 30, 2004. It should be noted that the  
29 \$9,936,692 in the Operating Capital Account is included in the previously mentioned  
30 Project Fund (\$57,000,000).

1 **Q. Mr. Edge could please explain Schedule WEE-3?**

2 A. Yes. Schedule WEE-3 starts with the July 1, 2003 balances in the Operating Capital  
3 Account of \$71,921 and in the debt service and debt service coverage account of  
4 \$12,908,043. During FY 2004, NBC received approximately \$24,200,000 in revenues  
5 and interest and disbursed approximately \$16,400,000 in debt service payments and the  
6 purchase of operating capital assets. Also, NBC transferred slightly more than  
7 \$5,000,000 from the debt/debt coverage account to the Operating Capital Account to  
8 cover the operating capital asset expenditures. The balance in this account will be used to  
9 fund future capital projects and operating capital asset purchases.

10  
11 From July 1, 2004 to September 30, 2004 NBC collected approximately \$4,800,000 of  
12 revenues and interest and disbursed an additional \$7,500,000. NBC also transferred  
13 \$7,000,000 to the Operating Capital Account. The remaining balance in the debt  
14 service/debt service coverage account is approximately \$8,000,000 as of September 30,  
15 2004.

16  
17 **Q. Mr. Edge, you did not mention this \$8,000,000 when you provided a listing of**  
18 **the funds available for CIP, why not?**

19 A. Because these funds are not available for the CIP at this time. NBC is required to  
20 fund two debt service payment accounts (State Debt Obligation Account and the Debt  
21 Service Payment Account) in the Debt Service Fund per the Trust Indenture. These  
22 accounts are intended to fund the accumulated debt service payments. At this time,  
23 these two accounts have accumulated balances of approximately \$5,000,000. The  
24 remaining \$3,000,000 in the Stabilization Account is the current year's debt service  
25 coverage. Therefore, the \$8,000,000 in the Debt Service Fund as of September 30, 2004  
26 is not available for the CIP.

1 **Q. Mr. Edge, you show disbursements of approximately \$2,400,000 for operating**  
2 **capital asset purchases on your Schedule WEE-3 for the period July 1, 2003 through**  
3 **September 30, 2004, however you have not explained how the balance of the**  
4 **Operating Capital Account in the amount of \$9,936,691 will be spent. Could you**  
5 **provide a short description of how NBC intends to use this money?**

6 A. Yes I can. NBC has miles of sewer interceptors (pipes) that require inspection  
7 (including video inspection) and in some cases repairs. NBC has established a long term  
8 project to address these inspections and repairs under Contract 304. NBC expects to  
9 spend these funds primarily on inspection/cleaning and construction projects to bring its  
10 interceptors up to proper operational status. This project is expected to restore carrying  
11 capacity of the sewers and reduce CSO discharge volumes. This is an ongoing project.  
12 NBC budgeted \$1,895,000 in FY 2005 for inspection and cleaning and \$2,879,000 for  
13 interceptor repairs. In addition to the inspection/cleaning and construction projects NBC  
14 also plans to fund portions of the CSO project as well as various other projects contained  
15 within the CIP. NBC will provide continuous updates on CIP projects in its quarterly  
16 compliance reporting.

17  
18 **Q. Mr. Edge, the second part of compliance item five requires NBC to calculate the**  
19 **rate year funding requirement. Have you done so?**

20 A. Yes, as stated earlier in this testimony, the debt service and debt service coverage  
21 needed for the rate year (FY 2006) is calculated on Schedule WEE-2.

22  
23 **Q. Compliance item six relates to RICWFA funding. Please provide the necessary**  
24 **information.**

25 A. The RICWFA funding information is listed on the projected debt service payment  
26 Schedule WEE-7. The amount requested from RICWFA in FY 2004 was \$80,000,000  
27 and NBC received \$40,000,000 (Pool Loan 7). NBC is requesting approval of an  
28 additional \$40,000,000 (Pool Loan 8) from the RICWFA in FY 2005.



1 **Q. Compliance item six relates to the debt service coverage funds. Have you**  
2 **already explained the status of the debt service coverage funds?**

3 A. Yes I have. As I previously stated Schedule WEE-3 (Restricted Activity Summary)  
4 provides a summary of the activity regarding debt service coverage funds for FY 2004  
5 and updated through September 30, 2004.

6  
7 **Q. Have you provided a calculation of the new rates based upon a uniformed**  
8 **percentage increase?**

9 A. Yes, Schedule WEE - 4 (Calculation of Revenue Requirement as Percentage  
10 Increase) which shows the calculation of the percentage increase on all rates based on a  
11 uniform increase. I have excluded two revenue sources (septage revenue and  
12 pretreatment fees) consistent with the findings in the most recent Docket # 3592. This  
13 information is in compliance with item eight.

14  
15 **Q. Mr. Edge, is NBC in compliance with all Commission orders?**

16 A. Yes, NBC is in compliance with all previous Commission orders and will be in  
17 compliance with the PUC Order in Docket # 3592 when it is issued. Further, I have  
18 reviewed the requirements of section 2.11 of the PUC rules of practice and procedure and  
19 have addressed all of the requirements in this testimony.

20  
21 **Q. What are the requirements of section 2.11?**

22 A. The utility shall file the following:

- 23 1. Revised tariff pages (see separate tab)  
24 2. A billing analysis (See Schedule WEE – 5)  
25 3. The effective rate changes by rate group (See Schedule WEE- 6)  
26 4. Other revised schedules, prefiled testimony, order compliance information and  
27 other data (See this testimony and all supporting schedules)

28  
29 **Q. How much of a revenue increase is NBC requesting in this compliance docket?**

30 A. NBC is requesting additional revenue of \$6,551,225. This represents a revenue  
31 increase of 12.05%.

1   **Q. Will all rates increase by 12.05%?**

2   A. No, not all revenue accounts are impacted by the proposed rate increase. Therefore,  
3   the effective across-the-board rate increase on tariff rates approved by the PUC will be  
4   12.76% (See Schedule WEE – 4).

5

6   **Q. Mr. Edge, how did you calculate the revenue requirement?**

7   A. Using Mr. Catlin’s mid-year average approach for debt service (approved by the  
8   Commission in Docket # 3483), I calculated the total revenue requirement and percentage  
9   increase required for the rate year (FY 2006) and four succeeding years.

10

11   Schedule WEE-2 starts with the revenue requirement approved in Docket # 3592 (the  
12   most recently approved revenue requirement). The schedule then shows the addition of  
13   the estimated debt service costs for current and proposed SRF loans, the current VRDO  
14   loan and proposed open market revenue bonds. I then added the coverage allowance  
15   required for each year to arrive at total debt service expenses for the rate year (FY 2006)  
16   and four succeeding years. The last step was the addition of the operating reserve to  
17   arrive at the total revenue requirement for the rate year (FY 2006) and the succeeding  
18   four years.

19

20   At the bottom of Schedule WEE-2, I compare the revenue requirement that I calculated  
21   for each year to the revenue requirement of the previous year to arrive at the increase in  
22   revenue requirement needed for each year. I divided the increase needed by the prior  
23   year revenue (for the rate year I used the approved revenue requirement in Docket #  
24   3592) to arrive at the percentage increase needed for each year.

25

1 **Q. Mr. Edge how does the revenue requirement percentages that you have**  
2 **calculated at this time compare to the percentage increase for FY 2006 calculated**  
3 **for the VRDO/TECP program during Docket # 3483?**

4 A. The rate year percentage is significantly less. The table below shows the  
5 comparison between my current calculations and those calculated in Docket # 3483. I  
6 would expect these percentages to change each year when NBC files its compliance  
7 testimony for future borrowings. That said, NBC is making every effort to reduce future  
8 debt service costs and will continue to do so throughout the CSO project and beyond.

<u>FY June 30</u>	<u>Schedule WEE-2</u>	<u>Docket # 3483</u>
2006	12.05%	22.74%
2007	8.55%	9.71%
2008	6.80%	4.55%
2009	3.05%	1.81%
2010	2.80%	Not Calculated

10  
11 **Q. Why is the percentage increase for FYE 2006 (12.05%) that you have calculated**  
12 **lower than the percentage increase for FYE 2006 (22.74%) calculated by Mr. Catlin**  
13 **in Docket # 3483?**

14 A. There are two reasons why the percentage increase is lower. First, there has been an  
15 abbreviated rate filing and a rate increase approved by the PUC that increased the  
16 revenue requirement before debt service from \$25,268,444 used by Mr. Catlin to  
17 \$27,982,758. The fact that the base revenue requirement is now greater than it was  
18 during Docket # 3483 results in a lower percentage increase in revenue requirement at  
19 this time.

20  
21 Second, debt service costs are projected to be less in FY 2006 now than they were in  
22 Docket # 3483. Mr. Catlin used average debt service cost for FY 2006 provided to him  
23 by NBC of \$30,150,136 while I used the new projected average debt service cost of  
24 \$25,872,877. The lower debt service cost results in a lower debt service coverage.

25  
26 **Q. Why is the debt service for the rate year lower now than it was in Docket 3483?**

27 A. NBC continues its efforts to keep debt service payments as low as possible. NBC  
28 has not needed to borrow at the level expected in Docket 3483 primarily as the result of  
29 the capital projects proceeding at a slightly slower rate than anticipated.

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**Q. Mr. Edge has NBC proceeded with the TECP/VRDO program?**

A. Yes. Since Docket 3483 NBC has issued \$70,000,000. Please refer to the testimony of Maureen Gurghigian for additional information on the TECP/VRDO program.

**Q. Are there any other matters that you would like to discuss?**

A. Yes. On page 25 of PUC Order #17558 the PUC instructed the NBC to obtain “approval to use VRDO/TECP for any new capital improvement project for which the estimated projected cost exceeds \$300,000”.

NBC is requesting to use VRDO borrowings to complete the following important project.

**808.00.C - BPWWTF - Repairs and Improvements to the Chlorine Building and Digester Complex**

The Chlorine Building and the Digester Complex at the Bucklin Point Wastewater Treatment Facility require various improvements and repairs. The Chlorine Building requires improvements to windows, doors, masonry and the roof. The Digester Complex requires installation of metal siding on three digesters and at the Control Building and replacement of the roofs and new handrails on two of the digesters.

Estimated cost \$550,000

Contract 808.00.C is scheduled to begin in October 2004.

NBC respectfully requests that this very important CIP project be funded with VRDO financing.

**Q. Does that conclude your prefled testimony?**

A. Yes.

**Narragansett Bay Commission**  
**Adjusted Rate Year Cost of Service**

WEE - 1

Acct. #	Account Description	Test Year	Adjustments	Rate Year
<b>Revenue</b>				
41000	FLAT FEES RESIDENTIAL	\$ 9,443,955		\$ 9,443,955
41100	MEASURED FEE - RESIDENTIAL	18,407,531		18,407,531
41501	FLAT FEES COMMERCIAL	6,126,546		6,126,546
41502	FLAT FEES INDUSTRIAL	-		-
41510	MEASURED FEE - COMMERCIAL	14,534,640		14,534,640
41511	MEASURED FEE - INDUSTRIAL	2,759,186		2,759,186
42000	DISCHARGE PERMIT FEES	1,259,546		1,259,546
42500	CONNECTION PERMIT FEES	81,391		81,391
43000	BOD/TSS SURCHARGE	170,578		170,578
43500	SEPTAGE INCOME	860,720		860,720
44502	MISCELLANEOUS OPERATING INCOME	1,883		1,883
45100	INTEREST INCOME	244,713		244,713
45500	LATE CHARGE PENALTY	470,674		470,674
46500	ENVIRONMENTAL ENFORCEMENT	-		-
47000	REIMBURSED COLLECTION COSTS	-		-
47500	GRANT	16,981		16,981
	ABATEMENT FEE	-		-
	ARBITRAGE REBATE	4,428		4,428
49002	MISCELLANEOUS INCOME	1,521		1,521
	REVENUE REQUIREMENT	-		-
	ROUNDING	(3,745)		(3,745)
	<i>Total Revenue</i>	<u>54,380,548</u>	<u>-</u>	<u>54,380,548</u>
<b>Expenses</b>				
Personnel Services				
	SALARIES & WAGES	11,821,821		11,821,821
	OVERTIME	470,643		470,643
	EMPLOYEE RET. BEN - STATE & SEP	1,265,971		1,265,971
52810	EMPLOYEE RET.BEN.-FICA	940,374		940,374
52820	EMPLOYEE BENEFITS-UI	31,638		31,638
52940	RETIREMENT HEALTH - STATE	64,922		64,922
	EMPLOYEE BEN.-HEALTH INS.	2,627,709		2,627,709
52990	EMPLOYEE BEN-DISABILITY INS.	31,437		31,437
54950	HEALTH INSURANCE-RETIREEES	1,646		1,646
53690	WORKERS COMP-OLD CLAIMS	50,000		50,000
	TURNOVER ALLOWANCE	(508,692)		(508,692)
	REDUCTION IN PERSONNEL - INCINERATOR	0		0
	<i>Total Personnel Services</i>	<u>16,797,470</u>	<u>-</u>	<u>16,797,470</u>
59000	SALARY REIMBURSEMENT	(955,258)		(955,258)
59001	FRINGE REIMBURSEMENT	(476,292)		(476,292)
	SALARY & FRINGE TURNOVER ALLOWANCE	<u>42,947</u>		<u>42,947</u>
	<i>Net Personnel Services</i>	<u>15,408,866</u>	<u>-</u>	<u>15,408,866</u>
Operating Supplies & Expense				
52610	MEDICAL SVCS.	8,220		8,220
53470	BLDG. & GRND. MAINT.	98,863		98,863
53480	SLUDGE, ASH HAULING & DISPOSAL	1,519,783		1,519,783
53490	SCREENING & GRIT DISPOSAL	212,440		212,440
53200	BAD DEBT EXPENSE	160,000		160,000

**Narragansett Bay Commission**  
**Adjusted Rate Year Cost of Service**

WEE - 1

Acct. #	Account Description	Test Year	Adjustments	Rate Year
53210	POSTAGE	134,699		134,699
54000	TELEPHONE	158,214		158,214
54500	OFFICE EXPENSE	93,249		93,249
53240	DUES & SUBSCRIPTIONS	29,954		29,954
53250	FREIGHT, CART. & EXP.	40,104		40,104
53660	INSURANCE	654,014		654,014
53900	CENTRAL TELEPHONE	6,065		6,065
53310	PRINTING & BINDING	85,396		85,396
53320	ADVERTISING	17,355		17,355
53410	MILEAGE ALLOWANCE	2,572		2,572
53420	OUT-OF-STATE TRAVEL	48,501		48,501
53510	VEHICLE FUEL & MAINTENANCE	126,859		126,859
53610	REPAIR-BLDG & STRUCTURE	645,479		645,479
53611	INCINERATOR-SOLIDS HANDLING REPAIRS	354,850		354,850
53620	REPAIR-HIGHWAY & WALKS	4,380		4,380
53630	EQUIPMENT MAINTENANCE AGREE	471,451		471,451
53640	GENERAL REPAIRS	18,878		18,878
53350	RENTAL-OUTSIDE PROPERTY	2,107		2,107
53330	RENTAL- EQUIPMENT	17,746		17,746
53340	RENTAL- CLOTHING	44,550		44,550
54010	#1 FUEL OIL - KEROSENE	-		-
54020	FUEL OIL #2	-		-
54021	FUEL OIL #2 - INCINERATOR	16,053		16,053
54060	FUEL-GAS	381,685		381,685
54061	FUEL- GAS - INCINERATOR	608,605		608,605
54090	ELECTRICITY	2,987,588		2,987,588
54110	WATER	67,872		67,872
54200	CLOTHING	23,625		23,625
54440	SAFETY EQUIPMENT	17,005		17,005
53370	PUBLIC OUTREACH EDUCATION	-		-
54330	HH,LAUND. & CHEMICALS	20,826		20,826
54332	CHEM-CHLORINE/HYPOCHLORITE	389,822		389,822
54334	CHEM-LIME	12,422		12,422
54335	CHEM-POLYMER	87,553		87,553
54337	CHEM-SODIUM BISULFITE	105,273		105,273
54338	SODA ASH	243,541		243,541
54340	LAB SUPPLIES	189,879		189,879
53650	HIGHWAY & LANDSCAPE	2,242		2,242
54370	SUPPLIES BLDG. & MAINTENANCE	114,464		114,464
54371	INCINERATOR SUPPLIES	4,000		4,000
54410	EDUCATIONAL SUPP. & EXP.	79,231		79,231
54420	COMPUTER SUPPLIES	221,245		221,245
54430	MISC. OPERATING SUPPLIES & EXPENSE	1,810		1,810
53360	MISCELLANEOUS EXPENSE	4,168		4,168
55820	EDUCATION SCHOOL AIDE	525		525
55850	CLAIMS	-		-
57600	EQUIP LOSSES-CASUALTY THEFT	-		-
	<i>Total Operating Supplies &amp; Expense</i>	10,535,163	-	10,535,163
Special Services				
57800	BOND & NOTE FEES	2,500		2,500
52600	REGULATORY EXPENSE	192,423		192,423
52620	ARCHITECT/ENG. SERVICES	750		750
52630	LECTURES/ED./PROF. SVCS.	198		198

**Narragansett Bay Commission  
Adjusted Rate Year Cost of Service**

WEE - 1

Acct. #	Account Description	Test Year	Adjustments	Rate Year
52650	SECURITY SERVICES	17,804		17,804
52660	LEGAL SERVICES	129,185		129,185
52670	MGMT/AUDIT SERVICES	1,419,173		1,419,173
52680	SPECIAL CLERICAL SERVICES	13,233		13,233
52690	ALL OTHER SPECIAL SERVICES	253,773		253,773
	<i>Total Special Services</i>	2,029,039	-	2,029,039
Capital Outlays				
16200	LANDFILL			
16510	AUTOMOTIVE EQUIP.	128,000		128,000
16520	BLDG. & PLANT EQUIP.	519,650		519,650
16530	CONSTRUCTION EQUIP.	-		-
16540	ED. AND REC. EQUIP.	-		-
16570	LABORATORY EQUIP.	151,000		151,000
16580	OFFICE FURN & EQUIP/COMPUTER	598,700		598,700
16590	OTHER EQUIP.	-		-
16610	BUILDING & OTHER STRUCT.	125,000		125,000
16630	IMP.-NOT BLDG OR STRUCT.	-		-
16600	REPLACEMENT RESERVE	370,000		370,000
	PRIOR YEAR DEBT COVERAGE	(1,892,350)		(1,892,350)
	<i>Total Capital Outlays</i>	-	-	-
Depreciation & Amortization				
57010	AMORTIZATION	9,690		9,690
57500	DEPRECIATION	-		-
	<i>Total Depreciation &amp; Amortization</i>	9,690	-	9,690
	<i>Total Operating Expenses</i>	27,982,757	-	27,982,757
Debt Service				
	DEBT COVERAGE	6,094,071	562,326	6,656,397
57910	INTEREST	-		-
	PRINCIPAL	21,909,888	3,962,989	25,872,877
	CARRY FORWARD FROM PREVIOUS YEAR	(2,025,910)	2,025,910	-
	<i>Total Debt Service</i>	25,978,049	6,551,225	32,529,274
	<i>Total Expenses</i>	53,960,806	6,551,225	60,512,031
	<i>Net Operating Reserve</i>	419,741	-	419,741
		54,380,548	6,551,225	60,931,773
	<i>Net Income</i>	\$ 0	\$ (6,551,225)	\$ (6,551,225)

**Narragansett Bay Commission**  
**Analysis of Annual Debt Service and Required Rate Increases**

**WEE - 2**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenue Requirement before Debt Service (Dkt. 3592)	27,982,758	27,982,758	27,982,758	27,982,758	27,982,758
SRF Debt Service	21,705,284	23,946,927	25,055,646	25,446,312	26,356,493
VRDO Debt Service	3,892,703	3,891,351	3,884,993	3,935,638	3,927,601
Open Market Debt Service	274,890	1,895,505	4,639,606	6,079,381	6,879,025
Subtotal - Debt Service	25,872,877	29,733,783	33,580,245	35,461,331	37,163,119
Coverage Requirements	6,656,397	8,006,182	8,660,501	8,930,779	9,269,375
Total Expenses	60,512,032	65,722,723	70,223,504	72,374,868	74,415,252
Operating Reserve	419,741	419,741	419,741	419,741	419,741
Total Revenue Requirement	60,931,773	66,142,464	70,643,245	72,794,609	74,834,993
Prior Year Revenue	54,380,548	60,931,773	66,142,464	70,643,245	72,794,609
Percentage Increase	12.05%	8.55%	6.80%	3.05%	2.80%



Narragansett Bay Commission  
 Restricted Activity Summary  
 For the period of 7/1/2003 - 9/30/2004

	Project Fund Operating Capital Acct. (Restricted Capital)	Debt Service Fund Debt/Coverage Restricted	Total
<b>Restricted Balance 7/1/2003</b>	\$ 71,921.27	\$ 12,908,043.65	\$ 12,979,964.92
Receipts FY 2004	-	24,115,198.09	24,115,198.09
Interest FY 2004	721.42	127,312.04	128,033.46
Disbursements FY 2004	(2,329,462.23)	(14,088,420.33)	(16,417,882.56)
Transfer to cover Operating Capital expenses for July 03 - March 04	1,390,297.06	(1,390,297.06)	-
Transferred the 2003 Coverage Balance to Project Fund	3,893,126.34	(3,893,126.34)	-
<b>Restricted Balance 6/30/2004</b>	3,026,603.86	17,778,710.05	20,805,313.91
Receipts FY 2005	-	4,755,462.15	4,755,462.15
Interest FY 2005	2,389.43	18,219.31	20,608.74
Disbursements FY 2005	(92,301.54)	(7,379,419.04)	(7,471,720.58)
Transfer to Project Fund	7,000,000.00	(7,000,000.00)	-
<b>Restricted Balance 9/30/2004</b>	9,936,691.75	8,172,972.47	18,109,664.22

*Composition of the Cash:*

Per Trust Indenture must fund the following:

State Debt Obligation Account		1,154,640.17	1,154,640.17
Debt Service Payment Account		3,874,355.20	3,874,355.20
Stabilization Fund		3,143,977.10	3,143,977.10
Included in Project Fund available for CIP	9,936,691.75	-	9,936,691.75
<b>Restricted Balance 9/30/2004</b>	\$ 9,936,691.75	\$ 8,172,972.47	\$ 18,109,664.22

**Narragansett Bay Commission**  
**Calculation of Revenue Requirement as a Percentage Increase**

**WEE - 4**

**Calculation of Percentage Increase in Revenue Requirement**

Revenue Increase (WEE-1)	\$ 6,551,225	
Rate Year Revenue at Old Rates (WEE-1)	54,380,548	<u>12.05%</u>

**Calculation of Across the Board Increase Percentage**

Revenue Increase	<u>6,551,225</u>	
Revenue Items which could be increased by an across the board % Increase		
Flat Fees Residential	9,443,955	
Measured Fee - Residential	18,407,531	
Flat Fees Commercial & Industrial	6,126,546	
Measured Fee - Commercial	14,534,640	
Measured Fee - Industrial	2,759,186	
Connection Permit Fees	<u>81,391</u>	
Total Revenue Available for Increase	<u>\$ 51,353,249</u>	
Across the Board Percentage Increase	<u>12.76%</u>	

# Narragansett Bay Commission

## Rate Year Revenue By Source

WEE - 5

### User Fee Revenues

	UNITS	RATES	REVENUE
Residential			
Dwelling Units	112,831	\$94.38	\$ 10,648,737
Flow	10,689,623	1.942	20,755,812
Non-Residential - Metered Accounts			
5/8"	3,828	212	811,473
3/4"	880	317	278,826
1"	1,045	528	551,450
1 1/2"	832	1,057	879,037
2"	1,799	1,690	3,040,724
3"	73	3,168	231,299
4"	51	5,280	269,301
6"	57	10,562	602,032
8"	13	16,899	219,686
10"	1	24,292	24,292
Total Flat Fees from Metered Accounts			6,908,120
Commercial Consumption	5,825,507	2.813	16,388,850
Industrial Consumption	1,719,119	1.810	3,111,180
<b>Total User Fee Revenues</b>			57,812,699
Miscellaneous Revenue			
DISCHARGE PERMIT FEES	1,259,546		
CONNECTION PERMIT FEES	91,774		
BOD/TSS SURCHARGE	170,578		
SEPTAGE INCOME	860,720		
MISC. OPERATING INCOME	1,883		
INTEREST INCOME	244,713		
LATE CHARGE PENALTY	470,674		
ENVIRONMENTAL ENFORCEMENT	-		
REIMBURSED COLLECTION COSTS	-		
GRANT	16,981		
ARBITRAGE REBATE	4,428		
ABATEMENT	-		

# Narragansett Bay Commission Ratepayer Impact

**WEE - 6**

	Current Rates	Proposed Rates	Dollar Increase	% Increase
97.6 HCF Residential				
Customer Charge	\$ 79.00	\$ 89.08	\$ 10.08	
Consumption	158.60	178.83	20.23	
Total 97.6 HCF Residential	<u>\$ 237.60</u>	<u>\$ 267.91</u>	<u>\$ 30.31</u>	<u>12.76%</u>
5/8" meter, 244 HCF Commercial				
Customer Charge	\$ 177.00	\$ 199.58	\$ 22.58	
Consumption	574.62	647.93	73.31	
Total 5/8" meter, 244 HCF Commercial	<u>\$ 751.62</u>	<u>\$ 847.51</u>	<u>\$ 95.89</u>	<u>12.76%</u>
2" meter, 2440 HCF Commercial				
Customer Charge	\$ 1,415.00	\$ 1,595.51	\$ 180.51	
Consumption	5,746.20	6,479.25	733.05	
Total 2" meter, 2440 HCF Commercial	<u>\$ 7,161.20</u>	<u>\$ 8,074.77</u>	<u>\$ 913.57</u>	<u>12.76%</u>
5/8" meter, 244 HCF Industrial				
Customer Charge	\$ 177.00	\$ 199.58	\$ 22.58	
Consumption	369.66	416.82	47.16	
Total 5/8" meter, 244 HCF Industrial	<u>\$ 546.66</u>	<u>\$ 616.40</u>	<u>\$ 69.74</u>	<u>12.76%</u>
2" meter, 2440 HCF Industrial				
Customer Charge	\$ 1,415.00	\$ 1,595.51	\$ 180.51	
Consumption	3,696.60	4,168.18	471.58	
Total 2" meter, 2440 HCF Industrial	<u>\$ 5,111.60</u>	<u>\$ 5,763.70</u>	<u>\$ 652.10</u>	<u>12.76%</u>

## New Sewer Connection Fees

Applicable to all applications for a new service connection directly or indirectly to NBC facilities. Payable at the time of application.

Residential (per connection)	\$ 231.00	\$ 260.47	\$ 29.47
Commercial (per connection)	\$ 691.00	\$ 779.15	\$ 88.15
Industrial (per connection)	\$ 691.00	\$ 779.15	\$ 88.15

## Narragansett Bay Commission - Master Debt Service Schedule

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2005		FYE 2006		FYE 2007	
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22201	\$3M GOB - REFUNDED \$270,000 (1988 Series A)	1-Nov 1-May						
22201	\$14M GOB - REFUNDED \$967,781 (1992A Refunded) (Refunded 2002)	1-Dec 1-Jun	2,200.00	110,000.00				
22231	\$14M GOB 1997 Refunding portion (1997 Refunded - \$134,500)	1-Aug 1-Feb	1,667.50	66,700.00				
22205	6M GOB - REFUNDED - \$2,805,687.89 ( 1992A Refunding dated 1992)(Refunded 2002)	1-Dec 1-Jun	22,500.00 19,100.00	170,000.00	19,100.00 9,500.00	480,000.00	9,500.00	475,000.00
22232	6M GOB 1997 Refunding (1997 Refunding - \$802,300)	1-Aug 1-Feb	17,390.00 14,775.00	104,600.00	14,775.00 7,342.50	297,300.00	7,342.50	293,700.00
22233	21.55M GOB 1997 Refunding Portion (1997 Refunded -\$560,000)	1-Aug 1-Feb	5,330.00 5,282.50	1,900.00	5,282.50 5,242.50	1,600.00	5,242.50 5,190.00	2,100.00
22223	21.55M GOB - REFUNDED - \$2,040,904 (1996)	1-Aug 1-Feb	40,576.32 31,927.80	288,285.00	31,927.80 23,240.70	289,570.00	23,240.70 14,832.23	280,283.00
22206	5.5M GOB - REFUNDED - \$3,500,000 TOBACCO (1980 SERIES D)	15-Dec 15-Jun	26,425.00 26,425.00	175,000.00	19,862.50 19,862.50	175,000.00	13,300.00 13,300.00	175,000.00
22213	CEDE & CO. \$7.731M (BVDC) (BVDC 1992A Refunding and non-Refunded) (Refunding 2002)	1-Dec 1-Jun	62,100.00 52,700.00	470,000.00	52,700.00 26,200.00	1,325,000.00	26,200.00	1,310,000.00
22235	\$7.731M 1997 Refunding Portion (1997 Refunded - \$2,211,700)	1-Aug 1-Feb	47,935.00 40,720.00	288,600.00	40,720.00 20,237.50	819,300.00	20,237.50	809,500.00
22211	1993 REFUNDING BOND \$3,080,000 (BVDC) (\$4.85M) (BVDC 1993 Refunding)	15-Dec 15-Jun	9,450.00 9,450.00	270,000.00				
22234	\$900,000 Part A 1997 Refunding Portion (1997 Refunded - \$103,800)	1-Aug 1-Feb	987.50 977.50	400.00	977.50 970.00	300.00	970.00 960.00	400.00
22223	1996 REFUNDING BOND \$377,753 (\$900,000 Part B) (BVDC) (GOB Refunding 1996- BVDC)	1-Aug 1-Feb	7,516.18 5,918.01	53,272.00	5,918.01 4,312.75	53,509.00	4,312.75 2,752.39	52,012.00
22218	FLEET \$100,000 (BVDC) (BVDC 1971 Series D)	1-Aug 1-Feb	108.33 125.00	0.00	125.00 125.00	0.00	125.00 125.00	0.00
22218	FLEET \$100,000 (BVDC) TOBACCO (BVDC 1971 Series D)	1-Aug 1-Feb						
22237	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 9/98 Ref.)	15-Jul 15-Jan	759.38 759.38		759.38 759.38		759.38 634.38	5,000.00
22242	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 4/01 Ref.)	1-Aug 1-Feb	262.50 137.50	5,000.00	137.50 137.50		137.50 137.50	
22227	CAPITAL APPRECIATION BONDS (BVDC 1996)				333,249.00	16,751.00	312,711.75	12,288.25
22219	FLEET \$3,315,000 (BVDC 1986 Series F)	1-Aug 1-Feb	5,633.33 6,500.00	0.00	6,500.00 6,500.00	0.00	6,500.00 6,500.00	0.00
22219	FLEET \$3,315,000 TOBACCO (BVDC 1986 Series F)	1-Aug 1-Feb						
22238	FLEET \$3,315,000 - Partial Refunding (\$1.3M) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan	24,418.76 24,318.74	5,000.00	24,318.75 24,318.75		24,318.75 22,068.75	90,000.00
22239	FLEET \$3,315,000 - Partial Refunding (\$305K) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan	6,143.75 6,143.75		6,143.75 6,143.75		6,143.75 4,243.75	95,000.00

*Narragansett Bay Commission - Master Debt Service Schedule*

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2005		FYE 2006		FYE 2007	
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22243	FLEET \$3,315,000 - Partial Refunding (\$415K) (BVDC 1986 Series F) 4/01 Ref.	1-Aug 1-Feb	11,000.00 6,875.00	165,000.00	6,875.00 6,875.00		6,875.00 6,875.00	
21907	SRF - NO. PROV. \$2.647M	1-Sep 1-Mar	24,114.61 21,471.75	141,898.62	21,471.75 18,730.44	147,184.34	18,730.44 15,887.02	152,666.96
21909	SRF - WP/RA - \$3.694	1-Sep 1-Mar	25,681.88 23,388.48	185,152.00	23,388.48 21,037.97	189,762.00	21,037.97 18,628.93	194,487.00
21908	SRF - BUTLER - \$1.662M	1-Sep 1-Mar	16,941.43 15,325.06	85,876.29	15,325.06 13,647.85	89,109.03	13,647.85 11,907.51	92,463.45
21915	SRF POOL LOAN I - \$14.781M	1-Sep 1-Mar	185,467.36 172,900.45	685,000.00	172,900.45 159,870.32	710,250.00	159,870.32 146,358.60	736,500.00
21916	SRF POOL LOAN II - \$17.279M	1-Sep 1-Mar	204,378.49 190,390.92	800,708.00	190,390.92 175,912.19	828,824.00	175,912.19 160,925.06	857,927.00
21917	SRF POOL LOAN III - \$8.150M	1-Sep 1-Mar	126,701.83 120,737.77	327,259.00	120,737.77 114,555.46	339,246.00	114,555.46 108,146.70	351,673.00
21918	SRF POOL LOAN IV - \$23.955M	1-Sep 1-Mar	423,009.98 422,992.32	1,000.00	422,992.32 422,974.66	1,000.00	422,974.66 422,957.00	1,000.00
21919	SRF POOL LOAN V - \$57M	1-Nov 1-May	846,498.48 808,763.58	2,380,000.00	808,763.58 788,944.83	1,250,000.00	788,944.83 765,162.33	1,500,000.00
21920	SRF POOL LOAN VI - \$57M	1-Sep 1-Mar	432,537.87 414,742.66	2,254,698.29	414,742.66 396,474.64	2,314,605.61	396,474.64 377,721.24	2,376,104.68
21921	SRF POOL LOAN VII - \$40M	1-Sep 1-Mar	210,920.71 369,793.85		369,793.85 361,083.05	1,708,000.00	361,083.05 351,164.30	1,725,000.00
<i>Total</i>			5,601,298.20	9,035,349.20	5,764,877.76	11,036,310.98	5,397,626.17	11,588,105.34
<i>Total Interest and Principal Debt Service</i>			\$14,636,647.40		\$16,801,188.74		\$16,985,731.51	

## Narragansett Bay Commission - Master Debt Service Schedule

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2008		FYE 2009		FYE 2010		FYE 2011	
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22201	\$3M GOB - REFUNDED \$270,000 (1988 Series A)	1-Nov 1-May								
22201	\$14M GOB - REFUNDED \$967,781 (1992A Refunded) (Refunded 2002)	1-Dec 1-Jun								
22231	\$14M GOB 1997 Refunding portion (1997 Refunded - \$134,500)	1-Aug 1-Feb								
22205	6M GOB - REFUNDED - \$2,805,687.89 ( 1992A Refunding dated 1992)(Refunded 2002)	1-Dec 1-Jun								
22232	6M GOB 1997 Refunding (1997 Refunding - \$802,300)	1-Aug 1-Feb								
22233	21.55M GOB 1997 Refunding Portion (1997 Refunded -\$560,000)	1-Aug 1-Feb	5,190.00 5,190.00		5,190.00 5,190.00		5,190.00	207,600.00		
22223	21.55M GOB - REFUNDED - \$2,040,904 (1996)	1-Aug 1-Feb	14,832.23 7,391.94	280,765.00	7,391.94	278,941.00				
22206	5.5M GOB - REFUNDED - \$3,500,000 TOBACCO (1980 SERIES D)	15-Dec 15-Jun	6,650.00 6,650.00	175,000.00						
22213	CEDE & CO. \$7.731M (BVDC) (BVDC 1992A Refunding and non-Refunded) (Refunding 2002)	1-Dec 1-Jun								
22235	\$7.731M 1997 Refunding Portion (1997 Refunded - \$2,211,700)	1-Aug 1-Feb								
22211	1993 REFUNDING BOND \$3,080,000 (BVDC) (\$4.85M) (BVDC 1993 Refunding)	15-Dec 15-Jun								
22234	\$900,000 Part A 1997 Refunding Portion (1997 Refunded - \$103,800)	1-Aug 1-Feb	960.00 960.00		960.00 960.00		960.00	38,400.00		
22223	1996 REFUNDING BOND \$377,753 (\$900,000 Part B) (BVDC) (GOB Refunding 1996- BVDC)	1-Aug 1-Feb	2,752.39 1,371.71	52,101.00	1,371.71	51,763.00				
22218	FLEET \$100,000 (BVDC) (BVDC 1971 Series D)	1-Aug 1-Feb	125.00 125.00	0.00	125.00 125.00	0.00	125.00 125.00	0.00	125.00 125.00	0.00
22218	FLEET \$100,000 (BVDC) TOBACCO (BVDC 1971 Series D)	1-Aug 1-Feb								
22237	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 9/98 Ref.)	15-Jul 15-Jan	634.38 384.38	10,000.00	384.38 259.38	5,000.00	259.38 131.26	5,000.00	131.25	5,000.00
22242	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 4/01 Ref.)	1-Aug 1-Feb	137.50 137.50		137.50 137.50		137.50 137.50		137.50 137.50	
22227	CAPITAL APPRECIATION BONDS (BVDC 1996)		281,111.83	8,888.17						
22219	FLEET \$3,315,000 (BVDC 1986 Series F)	1-Aug 1-Feb	6,500.00 6,500.00	0.00	6,500.00 6,500.00	0.00	6,500.00 6,500.00	0.00	6,500.00 6,500.00	0.00
22219	FLEET \$3,315,000 TOBACCO (BVDC 1986 Series F)	1-Aug 1-Feb								
22238	FLEET \$3,315,000 - Partial Refunding (\$1.3M) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan	22,068.75 15,818.75	250,000.00	15,818.75 12,193.75	145,000.00	12,193.75 6,300.00	230,000.00	6,300.00	240,000.00
22239	FLEET \$3,315,000 - Partial Refunding (\$305K) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan	4,243.75 1,443.75	140,000.00	1,443.75	70,000.00				

*Narragansett Bay Commission - Master Debt Service Schedule*

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2008		FYE 2009		FYE 2010		FYE 2011	
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22243	FLEET \$3,315,000 - Partial Refunding (\$415K) (BVDC 1986 Series F) 4/01 Ref.	1-Aug 1-Feb	6,875.00 6,875.00		6,875.00 6,875.00		6,875.00 6,875.00		6,875.00 6,875.00	
21907	SRF - NO. PROV. \$2.647M	1-Sep 1-Mar	15,887.02 12,937.68	158,353.80	12,937.68 9,878.48	164,252.48	9,878.48 6,705.32	170,370.88	6,705.32 3,413.96	176,717.20
21909	SRF - WP/RA - \$3.694	1-Sep 1-Mar	18,628.93 16,159.92	199,329.00	16,159.92 13,629.44	204,292.00	13,629.44 11,035.95	209,378.00	11,035.95 8,377.89	214,591.00
21908	SRF - BUTLER - \$1.662M	1-Sep 1-Mar	11,907.51 10,101.65	95,944.13	10,101.65 8,227.81	99,555.85	8,227.81 6,283.43	103,303.53	6,283.43 4,265.85	107,192.29
21915	SRF POOL LOAN I - \$14.781M	1-Sep 1-Mar	146,358.60 132,351.55	763,500.00	132,351.55 117,826.55	791,750.00	117,826.22 102,764.27	821,000.00	102,764.27 87,147.37	851,250.00
21916	SRF POOL LOAN II - \$17.279M	1-Sep 1-Mar	160,925.06 145,411.68	888,052.00	145,411.68 129,353.58	919,234.00	129,353.58 112,731.62	951,512.00	112,731.62 95,526.00	984,923.00
21917	SRF POOL LOAN III - \$8.150M	1-Sep 1-Mar	108,146.70 101,503.17	364,555.00	101,503.17 94,616.29	377,909.00	94,616.29 87,477.14	391,752.00	87,477.14 80,076.47	406,102.00
21918	SRF POOL LOAN IV - \$23.955M	1-Sep 1-Mar	422,957.00 384,899.70	2,155,000.00	384,899.70 347,460.50	2,120,000.00	347,460.50 306,842.50	2,300,000.00	306,842.50 269,315.00	2,125,000.00
21919	SRF POOL LOAN V - \$57M	1-Nov 1-May	765,162.33 729,488.58	2,250,000.00	729,488.58 687,789.93	2,630,000.00	687,789.93 644,743.60	2,715,000.00	644,743.60 600,191.05	2,810,000.00
21920	SRF POOL LOAN VI - \$57M	1-Sep 1-Mar	377,721.24 358,469.55	2,439,237.77	358,469.55 338,706.35	2,504,048.32	338,706.35 318,418.04	2,570,580.87	318,418.04 297,590.67	2,638,881.19
21921	SRF POOL LOAN VII - \$40M	1-Sep 1-Mar	351,164.30 339,909.05	1,745,000.00	339,909.05 327,356.25	1,768,000.00	327,356.25 313,639.80	1,793,000.00	313,639.80 298,624.80	1,820,000.00
<i>Total</i>			5,015,020.07	11,975,725.87	4,384,516.36	12,129,745.65	4,037,795.90	12,506,897.28	3,688,876.98	12,379,656.68
<i>Total Interest and Principal Debt Service</i>			\$16,990,745.94		\$16,514,262.01		\$16,544,693.18		\$16,068,533.66	



***Narragansett Bay Commission - Master Debt Service Schedule***

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2012		FYE 2013		FYE 2014		FYE 2015	
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22201	\$3M GOB - REFUNDED \$270,000 (1988 Series A)	1-Nov 1-May								
22201	\$14M GOB - REFUNDED \$967,781 (1992A Refunded) (Refunded 2002)	1-Dec 1-Jun								
22231	\$14M GOB 1997 Refunding portion (1997 Refunded - \$134,500)	1-Aug 1-Feb								
22205	6M GOB - REFUNDED - \$2,805,687.89 ( 1992A Refunding dated 1992)(Refunded 2002)	1-Dec 1-Jun								
22232	6M GOB 1997 Refunding (1997 Refunding - \$802,300)	1-Aug 1-Feb								
22233	21.55M GOB 1997 Refunding Portion (1997 Refunded -\$560,000)	1-Aug 1-Feb								
22223	21.55M GOB - REFUNDED - \$2,040,904 (1996)	1-Aug 1-Feb								
22206	5.5M GOB - REFUNDED - \$3,500,000 TOBACCO (1980 SERIES D)	15-Dec 15-Jun								
22213	CEDE & CO. \$7.731M (BVDC) (BVDC 1992A Refunding and non-Refunded) (Refunding 2002)	1-Dec 1-Jun								
22235	\$7.731M 1997 Refunding Portion (1997 Refunded - \$2,211,700)	1-Aug 1-Feb								
22211	1993 REFUNDING BOND \$3,080,000 (BVDC) (\$4.85M) (BVDC 1993 Refunding)	15-Dec 15-Jun								
22234	\$900,000 Part A 1997 Refunding Portion (1997 Refunded - \$103,800)	1-Aug 1-Feb								
22223	1996 REFUNDING BOND \$377,753 (\$900,000 Part B) (BVDC) (GOB Refunding 1996- BVDC)	1-Aug 1-Feb								
22218	FLEET \$100,000 (BVDC) (BVDC 1971 Series D)	1-Aug 1-Feb	125.00 125.00	0.00	125.00	5,000.00				
22218	FLEET \$100,000 (BVDC) TOBACCO (BVDC 1971 Series D)	1-Aug 1-Feb								
22237	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 9/98 Ref.)	15-Jul 15-Jan								
22242	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 4/01 Ref.)	1-Aug 1-Feb	137.50	5,000.00						
22227	CAPITAL APPRECIATION BONDS (BVDC 1996)									
22219	FLEET \$3,315,000 (BVDC 1986 Series F)	1-Aug 1-Feb	6,500.00 6,500.00	0.00	6,500.00	260,000.00				
22219	FLEET \$3,315,000 TOBACCO (BVDC 1986 Series F)	1-Aug 1-Feb								
22238	FLEET \$3,315,000 - Partial Refunding (\$1.3M) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan								
22239	FLEET \$3,315,000 - Partial Refunding (\$305K) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan								

***Narragansett Bay Commission - Master Debt Service Schedule***

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2012		FYE 2013		FYE 2014		FYE 2015	
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22243	FLEET \$3,315,000 - Partial Refunding (\$415K) (BVDC 1986 Series F) 4/01 Ref.	1-Aug 1-Feb	6,875.00	250,000.00						
21907	SRF - NO. PROV. \$2.647M	1-Sep 1-Mar	3,413.96	183,299.90						
21909	SRF - WP/RA - \$3.694	1-Sep 1-Mar	8,377.89 5,653.65	219,934.00	5,653.65 2,861.58	225,410.00	2,861.58	231,022.00		
21908	SRF - BUTLER - \$1.662M	1-Sep 1-Mar	4,265.85 2,172.33	111,227.45	2,172.33	115,414.49				
21915	SRF POOL LOAN I - \$14.781M	1-Sep 1-Mar	87,147.37 70,957.16	882,500.00	70,957.16 54,170.71	915,000.00	54,170.71 36,765.08	948,750.00	36,765.08 18,717.36	983,750.00
21916	SRF POOL LOAN II - \$17.279M	1-Sep 1-Mar	95,526.00 77,716.23	1,019,507.00	77,716.23 59,281.08	1,055,306.00	59,281.08 40,198.63	1,092,361.00	40,198.63 20,446.11	1,130,718.00
21917	SRF POOL LOAN III - \$8.150M	1-Sep 1-Mar	80,076.00 72,404.71	420,978.00	72,404.71 64,451.94	436,398.00	64,451.94 56,207.95	452,384.00	56,207.95 47,661.78	468,955.00
21918	SRF POOL LOAN IV - \$23.955M	1-Sep 1-Mar	269,315.00 239,469.60	1,690,000.00	239,469.60 214,127.50	1,435,000.00	214,127.50 189,491.80	1,395,000.00	189,491.80 168,388.10	1,195,000.00
21919	SRF POOL LOAN V - \$57M	1-Nov 1-May	600,191.05 554,211.55	2,900,000.00	554,211.55 506,646.55	3,000,000.00	506,646.55 457,496.05	3,100,000.00	457,496.05 406,680.77	3,205,000.00
21920	SRF POOL LOAN VI - \$57M	1-Sep 1-Mar	297,590.67 276,209.92	2,708,996.25	276,209.92 254,261.08	2,780,974.29	254,261.08 231,729.06	2,854,864.78	231,729.06 208,598.36	2,930,718.55
21921	SRF POOL LOAN VII - \$40M	1-Sep 1-Mar	298,624.80 282,437.30	1,850,000.00	282,437.30 265,217.00	1,882,000.00	265,217.00 247,197.20	1,917,000.00	247,197.20 228,448.40	1,953,000.00
	<i>Total</i>		3,346,023.54	12,241,442.60	3,008,874.89	12,110,502.78	2,680,103.21	11,991,381.78	2,358,026.65	11,867,141.55
	<i>Total Interest and Principal Debt Service</i>		\$15,587,466.14		\$15,119,377.67		\$14,671,484.99		\$14,225,168.20	

## Narragansett Bay Commission - Master Debt Service Schedule

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2016		FYE 2017		FYE 2018		FYE 2019		FYE 2020		FYE 2021		FYE.
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	
22201	\$3M GOB - REFUNDED \$270,000 (1988 Series A)	1-Nov 1-May													
22201	\$14M GOB - REFUNDED \$967,781 (1992A Refunded) (Refunded 2002)	1-Dec 1-Jun													
22231	\$14M GOB 1997 Refunding portion (1997 Refunded - \$134,500)	1-Aug 1-Feb													
22205	6M GOB - REFUNDED - \$2,805,687.89 ( 1992A Refunding dated 1992)(Refunded 2002)	1-Dec 1-Jun													
22232	6M GOB 1997 Refunding (1997 Refunding - \$802,300)	1-Aug 1-Feb													
22233	21.55M GOB 1997 Refunding Portion (1997 Refunded -\$560,000)	1-Aug 1-Feb													
22223	21.55M GOB - REFUNDED - \$2,040,904 (1996)	1-Aug 1-Feb													
22206	5.5M GOB - REFUNDED - \$3,500,000 TOBACCO (1980 SERIES D)	15-Dec 15-Jun													
22213	CEDE & CO. \$7.731M (BVDC) (BVDC 1992A Refunding and non-Refunded) (Refunding 2002)	1-Dec 1-Jun													
22235	\$7.731M 1997 Refunding Portion (1997 Refunded - \$2,211,700)	1-Aug 1-Feb													
22211	1993 REFUNDING BOND \$3,080,000 (BVDC) (\$4.85M) (BVDC 1993 Refunding)	15-Dec 15-Jun													
22234	\$900,000 Part A 1997 Refunding Portion (1997 Refunded - \$103,800)	1-Aug 1-Feb													
22223	1996 REFUNDING BOND \$377,753 (\$900,000 Part B) (BVDC) (GOB Refunding 1996- BVDC)	1-Aug 1-Feb													
22218	FLEET \$100,000 (BVDC) (BVDC 1971 Series D)	1-Aug 1-Feb													
22218	FLEET \$100,000 (BVDC) TOBACCO (BVDC 1971 Series D)	1-Aug 1-Feb													
22237	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 9/98 Ref.)	15-Jul 15-Jan													
22242	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 4/01 Ref.)	1-Aug 1-Feb													
22227	CAPITAL APPRECIATION BONDS (BVDC 1996)														
22219	FLEET \$3,315,000 (BVDC 1986 Series F)	1-Aug 1-Feb													
22219	FLEET \$3,315,000 TOBACCO (BVDC 1986 Series F)	1-Aug 1-Feb													
22238	FLEET \$3,315,000 - Partial Refunding (\$1.3M) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan													
22239	FLEET \$3,315,000 - Partial Refunding (\$305K) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan													

## Narragansett Bay Commission - Master Debt Service Schedule

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	FYE 2016		FYE 2017		FYE 2018		FYE 2019		FYE 2020		FYE 2021		FYE.
			INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	
22243	FLEET \$3,315,000 - Partial Refunding (\$415K) (BVDC 1986 Series F) 4/01 Ref.	1-Aug 1-Feb													
21907	SRF - NO. PROV. \$2.647M	1-Sep 1-Mar													
21909	SRF - WP/RA - \$3.694	1-Sep 1-Mar													
21908	SRF -BUTLER - \$1.662M	1-Sep 1-Mar													
21915	SRF POOL LOAN I - \$14.781M	1-Sep 1-Mar	18,717.36	1,020,250.00											
21916	SRF POOL LOAN II - \$17.279M	1-Sep 1-Mar	20,446.11	1,170,422.00											
21917	SRF POOL LOAN III - \$8.150M	1-Sep 1-Mar	47,661.78 38,802.66	486,133.00	38,802.66 29,619.03	503,940.00	29,619.08 20,099.00	522,400.00	20,099.00 10,230.25	541,535.00	10,230.25	561,372.00			
21918	SRF POOL LOAN IV - \$23.955M	1-Sep 1-Mar	168,388.10 156,114.40	695,000.00	156,114.40 111,611.20	2,520,000.00	111,611.20 74,525.20	2,100,000.00	74,525.20 45,121.30	1,665,000.00	45,121.30 23,576.10	1,220,000.00	23,576.10	1,335,000.00	
21919	SRF POOL LOAN V - \$57M	1-Nov 1-May	406,680.77 354,200.72	3,310,000.00	354,200.72 299,897.34	3,425,000.00	299,897.34 243,770.64	3,540,000.00	243,770.64 185,820.61	3,655,000.00	185,820.61 125,888.71	3,780,000.00	125,888.71 63,974.93	3,905,000.00	63,974.93
21920	SRF POOL LOAN VI - \$57M	1-Sep 1-Mar	208,598.36 184,853.08	3,008,587.75	184,853.08 160,476.90	3,088,525.91	160,476.90 135,453.03	3,170,588.04	135,453.03 109,764.28	3,254,830.57	109,764.28 83,392.98	3,341,311.42	83,392.98 56,321.00	3,430,090.07	56,321.00 28,529.71
21921	SRF POOL LOAN VII - \$40M	1-Sep 1-Mar	228,448.40 208,946.40	1,990,000.00	208,946.40 188,757.85	2,029,000.00	188,757.85 167,747.35	2,070,000.00	167,747.35 145,993.75	2,112,000.00	145,993.75 123,474.00	2,155,000.00	123,474.00 100,154.00	2,200,000.00	100,154.00 76,111.10
	<i>Total</i>		2,041,858.14	11,680,392.75	1,733,279.58	11,566,465.91	1,431,957.59	11,402,988.04	1,138,525.41	11,228,365.57	853,261.98	11,057,683.42	576,781.72	10,870,090.07	325,090.74
	<i>Total Interest and Principal Debt Service</i>		\$13,722,250.89		\$13,299,745.49		\$12,834,945.63		\$12,366,890.98		\$11,910,945.40		\$11,446,871.79		\$10,128.

## Narragansett Bay Commission - Master Debt Service Schedule

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	2022 PRINCIPAL	FYE 2023		FYE 2024		FYE 2025		Total	
				INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22201	\$3M GOB - REFUNDED \$270,000 (1988 Series A)	1-Nov 1-May								0.00 0.00	0.00
22201	\$14M GOB - REFUNDED \$967,781 (1992A Refunded) (Refunded 2002)	1-Dec 1-Jun								2,200.00 0.00	110,000.00
22231	\$14M GOB 1997 Refunding portion (1997 Refunded - \$134,500)	1-Aug 1-Feb								1,667.50 0.00	66,700.00
22205	6M GOB - REFUNDED - \$2,805,687.89 ( 1992A Refunding dated 1992)(Refunded 2002)	1-Dec 1-Jun								51,100.00 28,600.00	1,125,000.00
22232	6M GOB 1997 Refunding (1997 Refunding - \$802,300)	1-Aug 1-Feb								39,507.50 22,117.50	695,600.00
22233	21.55M GOB 1997 Refunding Portion (1997 Refunded -\$560,000)	1-Aug 1-Feb								31,425.00 26,095.00	213,200.00
22223	21.55M GOB - REFUNDED - \$2,040,904 (1996)	1-Aug 1-Feb								117,968.99 77,392.67	1,417,844.00
22206	5.5M GOB - REFUNDED - \$3,500,000 TOBACCO (1980 SERIES D)	15-Dec 15-Jun								66,237.50 66,237.50	700,000.00
22213	CEDE & CO. \$7.731M (BVDC) (BVDC 1992A Refunding and non-Refunded) (Refunding 2002)	1-Dec 1-Jun								141,000.00 78,900.00	3,105,000.00
22235	\$7.731M 1997 Refunding Portion (1997 Refunded - \$2,211,700)	1-Aug 1-Feb								108,892.50 60,957.50	1,917,400.00
22211	1993 REFUNDING BOND \$3,080,000 (BVDC) (\$4.85M) (BVDC 1993 Refunding)	15-Dec 15-Jun								9,450.00 9,450.00	270,000.00
22234	\$900,000 Part A 1997 Refunding Portion (1997 Refunded - \$103,800)	1-Aug 1-Feb								5,815.00 4,827.50	39,500.00
22223	1996 REFUNDING BOND \$377,753 (\$900,000 Part B) (BVDC) (GOB Refunding 1996- BVDC)	1-Aug 1-Feb								21,871.04 14,354.86	262,657.00
22218	FLEET \$100,000 (BVDC) (BVDC 1971 Series D)	1-Aug 1-Feb								1,108.33 1,000.00	5,000.00
22218	FLEET \$100,000 (BVDC) TOBACCO (BVDC 1971 Series D)	1-Aug 1-Feb								0.00 0.00	0.00
22237	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 9/98 Ref.)	15-Jul 15-Jan								3,687.50 2,928.13	30,000.00
22242	FLEET \$100,000 (BVDC) Partial Refunding (BVDC 1971 Series D 4/01 Ref.)	1-Aug 1-Feb								1,225.00 962.50	10,000.00
22227	CAPITAL APPRECIATION BONDS (BVDC 1996)									927,072.58	37,927.42
22219	FLEET \$3,315,000 (BVDC 1986 Series F)	1-Aug 1-Feb								57,633.33 52,000.00	260,000.00
22219	FLEET \$3,315,000 TOBACCO (BVDC 1986 Series F)	1-Aug 1-Feb								0.00 0.00	0.00
22238	FLEET \$3,315,000 - Partial Refunding (\$1.3M) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan								129,437.51 105,018.74	960,000.00
22239	FLEET \$3,315,000 - Partial Refunding (\$305K) 9/98 (BVDC 1986 Series F)	15-Jul 15-Jan								24,118.75 17,975.00	305,000.00

## Narragansett Bay Commission - Master Debt Service Schedule

ACCT. #	BOND/SRF DESCRIPTION	DUE DATES	2022 PRINCIPAL	FYE 2023		FYE 2024		FYE 2025		Total	
				INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
22243	FLEET \$3,315,000 - Partial Refunding (\$415K) (BVDC 1986 Series F) 4/01 Ref.	1-Aug 1-Feb								59,125.00 48,125.00	415,000.00
21907	SRF - NO. PROV. \$2.647M	1-Sep 1-Mar								113,139.26 89,024.65	1,294,744.18
21909	SRF - WP/RA - \$3.694	1-Sep 1-Mar								146,455.69 120,773.81	2,073,357.00
21908	SRF - BUTLER - \$1.662M	1-Sep 1-Mar								88,872.92 71,931.49	900,086.51
21915	SRF POOL LOAN I - \$14.781M	1-Sep 1-Mar								1,285,296.45 1,099,829.42	10,109,500.00
21916	SRF POOL LOAN II - \$17.279M	1-Sep 1-Mar								1,412,271.59 1,207,893.10	11,699,494.00
21917	SRF POOL LOAN III - \$8.150M	1-Sep 1-Mar								1,173,291.73 1,046,590.32	6,952,591.00
21918	SRF POOL LOAN IV - \$23.955M	1-Sep 1-Mar								4,222,876.86 3,799,866.88	23,953,000.00
21919	SRF POOL LOAN V - \$57M	1-Nov 1-May	4,035,000.00							9,070,170.25 8,223,671.77	53,390,000.00
21920	SRF POOL LOAN VI - \$57M	1-Sep 1-Mar	3,521,227.57	28,529.71	3,614,786.58					4,664,250.42 4,231,712.55	54,803,658.51
21921	SRF POOL LOAN VII - \$40M	1-Sep 1-Mar	2,247,000.00	76,111.10 51,439.85	2,295,000.00	51,439.85 26,007.45	2,344,000.00	26,007.45	2,397,000.00	4,710,430.91 4,447,495.30	40,000,000.00
Total			9,803,227.57	156,080.66	5,909,786.58	77,447.30	2,344,000.00	26,007.45	2,397,000.00	53,643,330.30	217,122,259.62
Total Interest and Principal Debt Service			318.31	\$6,065,867.24		\$2,421,447.30		\$2,423,007.45		\$270,765,589.92	

## THE NARRAGANSETT BAY COMMISSION

Analysis of Annual Debt Service and Required Rate Increases  
Associated with Tax-Exempt Commercial Paper Financing Alternative  
For the Period FY 2004 through FY 2009

	FY 2004	FY 2005	Fy 2004-05 Average	FY 2006	FY 2007	FY 2008	FY 2009
Rate Year Operating Expenses per NBC	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525	\$ 26,616,525
Less: 2003 Carryforward	(2,025,910)	(2,025,910)	(2,025,910)	-	-	-	-
Less: Division Adjustments to Oper. Expenses	<u>(1,348,081)</u>	<u>(1,348,081)</u>	<u>(1,348,081)</u>	<u>(1,348,081)</u>	<u>(1,348,081)</u>	<u>(1,348,081)</u>	<u>(1,348,081)</u>
Revenue Requirement before Debt Service	\$ 23,242,534	\$ 23,242,534	\$ 23,242,534	\$ 25,268,444	\$ 25,268,444	\$ 25,268,444	\$ 25,268,444
SRF Debt Service (1)	17,773,930	21,393,007	19,583,469	25,763,876	30,282,170	34,596,023	37,681,333
TECP Debt Service (1)	<u>1,669,560</u>	<u>2,983,279</u>	<u>2,326,420</u>	<u>4,386,260</u>	<u>4,779,133</u>	<u>2,987,797</u>	<u>952,446</u>
Total Debt Service	\$ 19,443,490	\$ 24,376,286	\$ 21,909,888	\$ 30,150,136	\$ 35,061,303	\$ 37,583,820	\$ 38,633,779
Coverage Requirements (2)	<u>\$ 4,860,873</u>	<u>\$ 6,094,072</u>	<u>\$ 6,094,072</u>	<u>\$ 7,537,534</u>	<u>\$ 8,765,326</u>	<u>\$ 9,395,955</u>	<u>\$ 9,658,445</u>
Total Expenses	\$ 47,546,897	\$ 53,712,892	\$ 51,246,494	\$ 62,956,114	\$ 69,095,073	\$ 72,248,219	\$ 73,560,668
Operating Reserve	<u>252,684</u>	<u>252,684</u>	<u>252,684</u>	<u>252,684</u>	<u>252,684</u>	<u>252,684</u>	<u>252,684</u>
Total Revenue Requirement	\$ 47,799,581	\$ 53,965,576	\$ 51,499,178	\$ 63,208,799	\$ 69,347,757	\$ 72,500,904	\$ 73,813,352
Prior Year Revenue	\$ 44,451,213	\$ 47,799,581	\$ 44,451,213	\$ 51,499,178	\$ 63,208,799	\$ 69,347,757	\$ 72,500,904
Percentage Increase	7.53%	12.90%	15.86%	22.74%	9.71%	4.55%	1.81%

Notes:

(1) Per response to Division data request

(2) Equal to 25% of debt service except amount for FY 2004-05 Average equals 25% of higher amount in FY 2005.

**IN RE:**  
**NARRAGANSETT BAY COMMISSION**  
**TARIFF FILING OF October 4, 2004**

NARRAGANSETT BAY COMMISSION

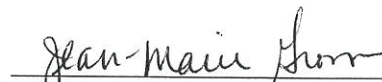
**ATTESTATION**

I, Maureen E. Gurghigian, Senior Vice President of First Southwest Company, hereby make affidavit that the testimony I presented on behalf of the Narragansett Bay Commission is true and correct to the best of my knowledge, information and belief.

  
Maureen E. Gurghigian

STATE OF RHODE ISLAND  
PROVIDENCE, SC.

Subscribed and sworn to before me on this 1<sup>st</sup> day of October 2004.

  
Notary Public



1  
2 **NARRAGANSETT BAY COMMISSION**

3  
4 **PRE-FILED DIRECT TESTIMONY**  
5 **OF MAUREEN GURGHIGIAN**  
6

7  
8 **Q. Please state your name.**

9 A. My name is Maureen E. Gurghigian, Senior Vice President with First  
10 Southwest Company.  
11

12 **Q. Could you please describe your educational and employment**  
13 **background?**

14 A. I hold a masters degree in business administration from the University of  
15 Rhode Island. My background in public finance includes 16 years at Fleet  
16 Bank and/or Fleet Securities, all in municipal finance. From 1993 through  
17 2000, I served as Manager of the New England Investment Banking Group  
18 of Fleet Securities, Inc. Prior to joining Fleet, I spent 8 years in Rhode  
19 Island State government, including four years as Director of the  
20 Governor's Policy Office under then Governor J. Joseph Garrahy.  
21

22 Among other duties, I provide financial advisory services to issuers of  
23 municipal debt, primarily in the State of Rhode Island. Annually, I am

1 involved in more that 20 publicly offered bond issues. In addition, I have  
2 supervisory responsibility for First Southwest's involvement with  
3 borrowings by the State of Rhode Island, numerous public agencies and  
4 30 Rhode Island municipalities. Our office assists clients with the  
5 origination of more than \$800 million in public financing issues each year.  
6

7 **Q. Can you describe the organization of First Southwest Company and the**  
8 **types of services that it provides?**

9 A. Over its five-and-a-half decades, First Southwest Company has served as  
10 financial advisor to many issuers such as schools, cities, airports,  
11 hospitals, sports complexes, water and wastewater authorities and  
12 districts and toll roads. Currently the firm serves more than 2,000  
13 municipalities and agencies, including more than 400 in New England.  
14 Last year, the firm was involved in the issuance of more than \$30 billion in  
15 securities on behalf of our clients, including \$25 billion as financial  
16 advisor.  
17

18 **Q. Do you hold any special licenses or certifications?**

19 A. I am a registered Municipal Principal with the Municipal Securities  
20 Rulemaking Board and hold the Series 52, 53 and 63 licenses.

1

2   **Q.    Have you testified previously before the Rhode Island Public Utilities**  
3       **Commission (RIPUC)?**

4    A.    Yes. I have provided testimony before the RIPUC and/or the Division of  
5       Public Utilities and Carriers on matters relating to the Pawtucket Water  
6       Supply Board, the Providence Water Supply Board, the Kent County  
7       Water Authority and the NBC.

8

9   **Q.    What is your relationship with the NBC?**

10   A.    I have served as financial advisor to the NBC for the past 15 years. I  
11       began providing financial advisory services to NBC in 1989 while working  
12       for Fleet Bank. In my capacity as NBC's financial advisor, I have assisted  
13       the NBC with a number of long-term borrowings from the Rhode Island  
14       Clean Water Finance Agency (RICWFA), several short-term borrowings as  
15       well as the \$70 million Variable Rate Demand bonds issued in April 2004.  
16       My services have included the facilitation of the credit rating process, loan  
17       structuring and other functions.

1

2 **Q. What is the purpose of your testimony?**

3 A. The NBC requested that I provide an update on the status of NBC's capital  
4 financing plan, and specifically the TECP/VRDO program, as approved by  
5 the RIPUC under Docket 3483.

6

7 **Q. What has been your involvement with the development of the**  
8 **Commission's capital financing plans?**

9 A. I have been working closely with NBC, its bond counsel and my  
10 colleagues from First Southwest Company over the last few years to  
11 develop a long-term financing plan for the NBC's Capital Improvement  
12 Program (CIP). NBC's preferred funding source is subsidized loans from  
13 the RICWFA since it provides NBC with the lowest cost of capital. Given  
14 the RICWFA's loan capacity constraints, the model has been a useful tool  
15 for addressing the gap between NBC's CIP financing needs and  
16 RICWFA's loan capacity. Using the analysis, the NBC proposed an  
17 alternative capital financing method (TECP/VRDO) in Docket No. 3483.  
18 The RIPUC approved the approach in its September 12, 2003 Report and  
19 Order in Docket No. 3483.

1

2 **Q. What is the current status of the TECP/VRDO program?**

3 A. Over the past year the RICWFA has continued to evaluate its loan  
4 capacity. Since the RIPUC issued the Report and Order in Docket 3483,  
5 the RICWFA further reduced their estimate of the amount of funding that  
6 will be available to the NBC as follows:

7 RICWFA Estimated Loan Capacity (in Million \$'s)

	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Docket 3483	60	60	60	60	60	48
Current	40	40	40	25	12	12

8

9 The revised estimates made traditional Tax-Exempt Commercial Paper  
10 (TECP) a less attractive alternative since the NBC would not be able to  
11 “ramp down” the TECP by taking it out with RICWFA funds in the short-  
12 run. In other words, the debt will be outstanding for several years before  
13 it can be taken out with RICWFA funds. As a result, we developed a  
14 multi-modal variable rate program (VRDO) that will provide the NBC  
15 with the benefits outlined in Docket No. 3483. In April 2004, NBC issued  
16 \$70 million in multi-modal 2004 Series A Wastewater System Revenue  
17 Bonds (VRDO). The 30-year VRDO was issued in weekly mode and can

1 be issued in commercial paper mode (and other modes) if the market  
2 conditions were such that it was advantageous.

3

4 **Q. Can you highlight the advantages of the VRDO program for the record?**

5 A. The advantages to the VRDO program can be summarized as follows:

- 6 • Call flexibility – the NBC can call the bonds essentially at any time  
7 without a penalty. NBC will also have the ability to take the  
8 variable rate out with RICWFA bonds as capacity becomes  
9 available or convert the obligation to a fixed rate.
- 10 • Interest rate advantages over fixed rate debt.
- 11 • Mode flexibility – obligations may be issued as variable rate  
12 demand obligations, auction rate certificates and other modes with  
13 weekly, monthly or daily rate-setting and re-marketing.

14

15 **Q. How has the VRDO program performed?**

16 A. NBC's VRDO was placed primarily with major institutional investors.

17 The interest rate is set weekly. From April 29 to September 22, 2004, the  
18 rate has averaged 1.13%. This compares favorably with the BMA (Bond  
19 Market Association) index, which averaged 1.14% for the same time  
20 period. In comparison, the Revenue Bond Index for fixed rate revenue

1 bonds during this same period ranged from 4.97% to 5.45% and averaged  
2 5.26% during the same time period.

3

4 **Q. Have you updated the financing model?**

5 **A.** Yes. Attached to my testimony is an updated model that reflects NBC's  
6 VRDO program, the revised RICWFA loan capacity, NBC's 2006-2010  
7 Capital Improvement Program and other updated figures (see Exhibit  
8 MG-1).

9

10 **Q. What interest rate assumptions have been used for the financing model**  
11 **included as part of this compliance filing?**

12 **A.** NBC's long-term finance model has been structured with conservative  
13 interest rate assumptions. For example, for the VRDO interest cost has  
14 been projected at 1.75% in 2004 rising gradually to 3.25 % by 2010. The 20-  
15 year average for the BMA index is 3.25%.

16

17 **Q. What is the current borrowing plan for NBC?**

18 **A.** For the fiscal year ending June 30, 2005, the NBC plans to borrow \$40  
19 million, which is the maximum amount available from the RICWFA. The  
20 loan is expected to be 50% at the RICWFA's traditional subsidized rate

1 and 50% at zero. The proceeds of this loan, combined with the remaining  
2 proceeds of the \$70 million VRDO bonds issued in April 2004, along with  
3 restricted "carry forward" funds (see testimony of Walter Edge) will fund  
4 the NBC CIP for the remainder of FY 2005. For the fiscal year ending June  
5 30, 2006, the NBC plans on borrowing an additional \$40 million from  
6 RICWFA in FY 2006 and financing any gap with the issuance of open  
7 market revenue bonds.

8

9 **Q. What interest rates are expected for the RICWFA loan?**

10 A. We are projecting an overall blended rate of 2.00% to 2.50% after  
11 consideration of the subsidy on 50% of the loan and the balance at zero  
12 percent interest. The rates are subject to market movement and will not be  
13 set until the loan agreement is signed.

14

15 **Q. Why must rates be approved now to execute this borrowing from**  
16 **RICWFA if the NBC is requesting rates become effective July 1, 2005?**

17 A. This loan is timed to access the next RICWFA funding. The RICWFA  
18 usually borrows in the fall and is anxious to bring its issue to market as  
19 soon as possible to capitalize on the current favorable interest rate  
20 environment. Any increase in interest rates will adversely impact both



1 RICWFA and NBC. Further, NBC's Trust Indenture and loan agreements  
2 with RICWFA require that NBC demonstrate debt service coverage when  
3 assuming new debt. Therefore the rates need to be approved, though not  
4 necessarily collected, at the time the loan is executed in order to comply  
5 with the rate covenants. Although NBC's present rates are sufficient to  
6 meet the projected principal and interest payments, they are insufficient to  
7 meet the debt service coverage requirements. The ability to effectuate the  
8 pending RICWFA loan is dependent upon the approval of rates now, even  
9 though they will not become effective until July 1, 2005.

10 **Q. Does this conclude your pre-filed testimony?**

11 **A.** Yes.

**NARRAGANSETT BAY COMMISSION**  
**INDENTURE REQUIREMENTS**  
**With Revenue Adjustment**  
**Open Market Model**

With Revenue Adjustment Open Market Model		FISCAL YEAR										
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
OPERATING REVENUES												
User Fees	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520	\$53,348,520
Permit and Constructions Fees	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694	\$84,694
Industrial Pretreatment	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546	\$1,259,546
Septage Income	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720	\$860,720
Abatement Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883	\$1,883
BOD/TSS Surcharge	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578	\$170,578
Revenue Adjustment	-	6,904,389	12,903,660	18,929,240	22,544,148	25,982,729	27,824,702	30,439,814	35,142,312	40,255,574	44,525,425	
Compounded Growth on Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues												
	\$55,725,941	\$62,630,330	\$68,629,601	\$74,655,181	\$78,270,089	\$81,708,670	\$83,550,643	\$86,165,755	\$90,868,253	\$95,981,515	\$100,251,366	
NONOPERATING REVENUES												
Interest Income	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713	\$ 244,713
Late Charge Penalty	470,674	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000	625,000
Grant Revenue	16,981	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	5,949	-	-	-	-	-	-	-	-	-	-	-
Total NonOperating Revenues												
	\$ 738,317	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713	\$ 869,713
DISPOSITION OF REVENUES (Section 13)												
A. OPERATING EXPENSES												
Personnel Services	\$ 15,880,036	\$ 16,515,237	\$ 17,175,847	\$ 17,862,881	\$ 18,577,396	\$ 19,320,492	\$ 20,093,312	\$ 20,897,044	\$ 21,732,926	\$ 22,602,243	\$ 23,506,333	
Special Services	2,029,039	2,100,055	2,173,557	2,249,632	2,328,369	2,409,862	2,494,207	2,581,504	2,671,857	2,765,372	2,862,160	
Operating Supplies and Services	12,119,472	12,543,654	12,982,681	13,437,075	13,907,373	14,394,131	14,897,926	15,419,353	15,959,030	16,517,596	17,095,712	
Total Operating Expenses	\$ 30,028,547	\$ 31,158,946	\$ 32,332,086	\$ 33,549,588	\$ 34,813,138	\$ 36,124,485	\$ 37,485,444	\$ 38,897,901	\$ 40,363,813	\$ 41,885,211	\$ 43,464,205	
Pledged Revenue/Net Revenue	\$26,435,711	\$32,341,096	\$37,167,228	\$41,975,306	\$44,326,664	\$46,453,899	\$46,934,912	\$48,137,566	\$51,374,153	\$54,966,017	\$57,656,875	
B. DEBT SERVICE												
SRF - Existing	14,638,531	16,802,189	16,986,732	16,991,746	16,515,262	16,545,693	16,069,534	15,588,466	15,139,878	14,671,485	14,225,168	
SRF - Proposed	2,207,790	4,903,095	6,960,195	8,063,900	8,931,050	9,810,800	10,677,275	11,554,600	12,426,675	13,297,600	14,147,300	
Total SRF Bond Debt Service:	16,846,321	21,705,284	23,946,927	25,055,646	25,446,312	26,356,493	26,746,809	27,143,066	27,566,553	27,969,085	28,372,468	
Open Market - Existing	-	-	-	-	-	-	-	-	-	-	-	-
Open Market - Proposed	-	274,890	1,895,505	4,639,606	6,079,381	6,879,025	6,878,700	7,450,755	9,621,973	12,104,368	13,857,563	
Total Open Market Bond Debt Service:	-	274,890	1,895,505	4,639,606	6,079,381	6,879,025	6,878,700	7,450,755	9,621,973	12,104,368	13,857,563	
Total Bond Debt Service:	16,846,321	21,980,174	25,842,432	29,695,252	31,525,693	33,235,518	33,625,509	34,593,821	37,188,525	40,073,452	42,230,031	
C. DEBT SERVICE - VRDN												
VRDN Principal	-	1,365,000	1,415,000	1,455,000	1,515,000	1,565,000	1,620,000	1,670,000	1,735,000	1,790,000	1,855,000	
VRDN Interest	2,548,547	2,527,703	2,476,351	2,429,993	2,420,638	2,362,601	2,302,421	2,246,232	2,175,797	2,109,361	2,040,469	
Total Variable Rate Debt Service	2,548,547	3,892,703	3,891,351	3,884,993	3,935,638	3,927,601	3,922,421	3,916,232	3,910,797	3,899,361	3,895,469	
D. TOTAL DEBT SERVICE												
	19,394,868	25,872,877	29,733,783	33,580,245	35,461,331	37,163,119	37,547,929	38,510,053	41,099,322	43,972,814	46,125,500	
EXCESS OF REVENUES OVER M&O AND DS REQUIREMENTS												
	\$7,040,843	\$6,468,219	\$7,433,446	\$8,395,061	\$8,865,333	\$9,290,780	\$9,386,982	\$9,627,513	\$10,274,831	\$10,993,203	\$11,531,375	
Debt Coverage Ratio - TOTAL ALL FIXED RATE DEBT												
	1.57	1.47	1.44	1.41	1.41	1.40	1.40	1.39	1.38	1.37	1.37	
Debt Coverage Ratio - TOTAL ALL DEBT												
	1.36	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	
Debt Service Coverage Required												
	4,848,717	6,468,219	7,433,446	8,395,061	8,865,333	9,290,780	9,386,982	9,627,513	10,274,831	10,993,203	11,531,375	
TOTAL REVENUE REQUIREMENT	54,272,132	63,500,043	69,499,314	75,524,894	79,139,802	82,578,383	84,420,356	87,035,468	91,737,966	96,851,228	101,121,079	
Capital Projects Summary	97,862,000	77,930,000	64,897,000	34,315,000	30,212,000	8,201,000	23,386,000	46,498,000	46,498,000	46,498,000	10,666,000	
Construction Financing Plan												
Sources of Funds												
Beginning Balance	70,900,000											
New TECP Repaid by SRF	0	0	0	0	0	0	0	0	0	1,501	0	
New Other CP	0	0	0	0	0	0	0	0	0	0	0	0
Bay Bonds	0	0	0	0	0	0	0	0	0	0	0	0
SRF Bonds	40,000,000	40,000,000	25,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	
Open Market Bonds	0	12,220,000	36,905,000	17,800,000	12,690,000	0	0	0	23,270,000	28,400,000	27,820,000	
Grants	1,560,377	0	0	0	0	0	0	0	0	0	0	0
Other Capital												
Surplus Revs from Pre Year	9,893,126	7,040,843	6,468,219	7,433,446	8,395,061	8,865,333	9,290,780	9,386,982	9,627,513	10,274,831	10,993,203	
Total Sources	122,353,503	59,260,843	68,373,219	37,233,446	33,085,061	20,865,333	21,290,780	44,656,982	50,029,015	50,094,831	22,993,203	
Uses fo Funds												
Operating Capital	2,139,680	2,203,870	2,269,987	2,338,086	2,408,229	2,480,476	2,554,890	2,631,537	2,710,483	2,791,797	2,875,551	
Capital Improvements	97,862,000	77,930,000	64,897,000	34,315,000	30,212,000	8,201,000	23,386,000	46,498,000	46,498,000	46,498,000	10,666,000	
TECP Take Out	0	0	0	0	0	0	0	0	0	0	0	0
Debt Issuance Expense	600,000	874,950	1,205,363	580,500	465,525	180,000	180,000	703,575	819,000	805,950	180,000	
Total Uses	100,601,680	81,008,820	68,372,349	37,233,586	33,085,754	10,861,476	26,120,890	49,833,112	50,027,483	50,095,747	13,721,551	

**NARRAGANSETT BAY COMMISSION**

**PRE-FILED DIRECT TESTIMONY**  
**OF KAREN S. D. GRANDE**

1     **Q.     Please state your name.**

2     A.     My name is Karen S. D. Grande.

3  
4     **Q.     Could you please describe your education and employment background?**

5     A.     I have a bachelor's degree from Syracuse University and a juris doctor from  
6             Suffolk University Law School. I am a partner in the law firm of Tillinghast Licht  
7             Perkins Smith & Cohen, LLP, 10 Weybosset Street, Providence, Rhode Island. I  
8             joined the firm in 1987 and have focused my practice in the area of public finance  
9             since that time. I have served as bond counsel to 23 of Rhode Island's 39 cities  
10            and towns, as well as many state and municipal agencies, which finance public  
11            projects, including public water supply and wastewater projects.

12  
13    **Q.     Do you hold any special licenses or certifications?**

14    A.     I am licensed to practice law in Rhode Island and Massachusetts. Although I  
15             have focused my practice in the area of public finance, neither the State of Rhode  
16             Island nor the Commonwealth of Massachusetts has a procedure for certification  
17             of specialization. I am a member of the Rhode Island Bar Association, the  
18             National Association of Bond Lawyers and an associate member of the Rhode  
19             Island Government Finance Officer's Association.

1     **Q.     What is your relationship with the Narragansett Bay Commission (NBC)?**

2     A.     My firm has served as bond counsel to the NBC for the last 17 years. In this  
3           capacity we have assisted the NBC with the issuance of several user fee  
4           anticipation notes, revenue notes, and ten (10) loans from the Rhode Island Clean  
5           Water Finance Agency (RICWFA). I have worked on NBC financings since 1994.

6  
7     **Q.     What is the purpose of your testimony?**

8     A.     My testimony serves to address certain legal documents associated with NBC's  
9           proposed \$70,000,000 revenue obligation.

10  
11    **Q.     Have you testified previously before the PUC?**

12    A.     I have appeared before the PUC in connection with rate filings for the Kent  
13           County Water Authority, the Pawtucket Water Supply Board and the NBC.

14  
15    **Q.     Can you describe in general terms the need for and content of the Authorizing  
16           Resolution, Trust Indenture and First Supplemental Indenture attached to  
17           your testimony as Exhibits KG-1?**

18    A     The Resolution authorizes the NBC to issue the revenue obligations in an amount  
19           not to exceed \$70,000,000 and execute a Trust Indenture and First Supplemental  
20           Trust Indenture. The Resolution was approved at the NBC's January 28, 2004  
21           meeting of the Board of Commissioners.

1  
2 **Q. What is the purpose of the Trust Indenture?**

3 **A.** The Trust Indenture is a contract between an issuer and a bond trustee for the  
4 benefit of bondholders. It is a lengthy document and typically sets forth the flow  
5 of funds, reserve requirements, rate covenants and the bond lien status, among  
6 other things. The NBC has not been required to enter into a formal trust  
7 indenture on any of its borrowings since loans from the RICWFA have been  
8 executed through a loan agreement secured by a bond issued by NBC. In order  
9 to issue publicly offered VRDO, the NBC must execute a Trust Indenture. The  
10 Trust Indenture will supersede NBC's present Trust Agreement and Loan  
11 Agreements. The First Supplemental Indenture is specifically for the \$70,000,000  
12 revenue bonds presented in this filing before the Division. Additional  
13 Supplemental Indentures will be executed for each subsequent series of revenue  
14 bonds issued by the NBC.

15  
16 **Q. Are these documents in final form?**

17 **A.** It is not anticipated that the documents will change significantly. However,  
18 because these bonds will be insured and require a liquidity facility, legal counsel  
19 for both the insurer and the bank are reviewing the documents and may require  
20 certain modifications.

1  
2 **Q. What funds and accounts are normally established pursuant to a trust**  
3 **indenture?**

4 A. The funds and accounts established under NBC's Trust Indenture include the  
5 following:

- 6  
7 (1) Project Fund;  
8 (2) Revenue Fund;  
9 (3) Operation and Maintenance Fund;  
10 (4) Debt Service Fund with a Stabilization Account;  
11 (5) Redemption Fund;  
12 (6) Debt Service Reserve Fund;  
13 (7) Operation and Maintenance Reserve Fund;  
14 (8) Renewal and Replacement Reserve Fund;  
15 (9) Rebate Fund; and  
16 (10) Unrestricted Fund.

17  
18 The flow of revenues through these funds and accounts is set forth in the Trust  
19 Indenture.

20  
21 **Q. Are these documents typical for revenue bond issuers?**

22 A. Yes. The language in the Trust Indenture and First Supplemental Indenture are  
23 standard documents. NBC's documents are typical for a variable rate issuer. The  
24 "multi-modal" annex will allow NBC to issue the revenue bonds in a variety of  
25 modes.

26  
27 **Q. Does this conclude your pre-filed testimony?**

28 A. Yes.

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TRUST INDENTURE

Between

NARRAGANSETT BAY COMMISSION

and

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, as Trustee

securing

WASTEWATER SYSTEM REVENUE BONDS

Dated as of April 15, 2004

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TRUST INDENTURE

THIS TRUST INDENTURE (the "Indenture") dated as of April 15, 2004 is made by and between the NARRAGANSETT BAY COMMISSION (the "Commission"), a public corporation organized and existing under the laws of the State of Rhode Island, and J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION (the "Trustee"), a national banking association duly organized and validly existing under the laws of the United States of America authorized to exercise corporate trust powers:

W I T N E S S E T H:

WHEREAS, pursuant to the Act (defined below), the Commission is authorized to issue its revenue bonds, for the purpose of financing the Cost of Projects within the meaning of the Act and as defined below; and

WHEREAS, the Commission intends to issue its revenue bonds, potentially in several series (each a "Series of Bonds"), to provide funds to the Commission to finance, among other things, the Cost of Projects; and

WHEREAS, the Commission has determined that, in the issuance and sale of the Bonds, it will be acting to further the public purposes of the Act; and

WHEREAS, each Series of Bonds will be issued pursuant to a Supplemental Indenture (defined below) which will provide for the terms of such Series of Bonds; and

WHEREAS, all things necessary to make the Bonds (defined below), when issued, executed and delivered by the Commission and authenticated by the Trustee, to the extent required pursuant to this Indenture, the valid, binding and legal general obligations of the Commission, and to constitute this Indenture as a valid assignment and pledge of the Revenues herein pledged to the payment of the Principal Amount (defined below) and Redemption Price (defined below) of, if any, and interest on the Bonds and a valid assignment and pledge of certain rights of the Commission has been done and performed, and the creation, execution and delivery of this Indenture, and the execution, issuance and delivery of the Bonds, subject to the terms hereof, have in all respects been duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that to secure the payment of Principal Amount and Redemption Price of, if any, and interest on the State Obligations (defined below), the Bonds according to their true intent and meaning, and all other amounts due from time to time under this Indenture, including those due to the Trustee and the Bond Insurer, if any, to secure the performance and observance of all of the covenants, agreements, obligations and conditions contained in the Bonds and in this Indenture, and to declare the terms and conditions upon and subject to which the Bonds are and are intended to be issued, held, secured and enforced and in consideration of the premises and the acceptance by the Trustee of the trusts created herein and of the purchase and acceptance of the Bonds by the Bondholders and for other good and valuable consideration, the receipt of which is acknowledged, the Commission has

executed and delivered this Indenture and absolutely and irrevocably pledges and assigns to the Trustee and to its successors in trust, on the basis set forth herein, and its and their assigns, all right, title and interest of the Commission in and to the Trust Estate as defined in Article I;

TO HAVE AND TO HOLD unto the Trustee and its successors in trust and its and their assigns forever;

BUT IN TRUST, NEVERTHELESS, and subject to the provisions hereof,

(a) for the equal and proportionate benefit, security and protection of all Bonds,

(b) for the enforcement of the payment of the Principal Amount and Redemption Price of, if any, and interest on the Bonds, and all other amounts due from time to time under this Indenture, including those due to the Trustee, when payable, according to the true intent and meaning thereof and of this Indenture, and

(c) to secure the performance and observance of and compliance with the covenants, agreements, obligations, terms and conditions of this Indenture,

in each case, without preference, priority or distinction, as to lien or otherwise except as provided herein, of any one Bond over any other by reason of designation, number, date of the Bonds or of authorization, issuance, sale, execution, authentication, delivery or maturity thereof, or otherwise, so that each Bond and all Bonds shall have the same right, lien and privilege under this Indenture and shall be secured equally and proportionately by this Indenture, it being intended that the lien and security of this Indenture shall take effect from the date hereof, without regard to the date of the actual issue, sale or disposition of the Bonds, as though upon that date all of the Bonds were actually issued, sold and delivered to purchasers for value; provided, however, that, upon satisfaction of and in accordance with the provisions of Article XI, the rights assigned hereby shall cease, determine and be void to the extent described therein; otherwise, such rights shall be and remain in full force and effect;

PROVIDED, FURTHER, that the pledge of the right, title and interest of the Commission in and to the Trust Estate is given subject to the right of the Commission to issue Additional Bonds secured on a parity basis with the Bonds by the Trust Estate; and

IT IS DECLARED that all Bonds issued under and secured by this Indenture are to be issued, authenticated and delivered, and that all Revenues (defined herein) assigned or pledged hereby are to be dealt with and disposed of under, upon and subject to, the terms, conditions, stipulations, covenants, agreements, obligations, trusts, uses and purposes provided in this Indenture; and the Commission has agreed and covenanted, and agrees and covenants with the Trustee, the Bond Insurer, if any, and with each and all Bondholders, as follows:

## ARTICLE I

### DEFINITIONS

Section 101. Definitions. In this Indenture, unless a different meaning clearly appears from the context:

"Act" shall mean the applicable provisions of Chapter 25 of Title 46 of the General Laws of Rhode Island (1956) as amended from time to time and any other statute now or hereafter enacted, which by its general or specific terms authorizes the Commission to issue debt to finance the System or otherwise affects the terms of such debt;

"Additional Security" shall have the meaning given such term in Section 208 hereof;

"Advance-Refunded Municipal Bonds" shall mean obligations the interest on which is excluded from gross income for purposes of federal income taxation that have been advance-refunded prior to their maturity and that are fully and irrevocably secured as to principal and interest by obligations described in clause (i) of the definition of Permitted Investments and that are rated in the highest rating category by each rating agency rating such obligations;

"Agency" means the Rhode Island Clean Water Finance Agency established pursuant to Chapter 12.2 of Title 46 of the General Laws of Rhode Island (1956) as amended;

"Agency Bonds" shall mean any bonds of the Commission issued to the Agency prior to the date of this Indenture and any Series of Bonds issued pursuant to Section 203(1)(v) of this Indenture;

"Agency Loan Agreement" shall mean any loan agreement between the Agency and the Commission pertaining to a loan made to the Commission pursuant to Chapter 12.2 of the General Laws of Rhode Island (1956), as amended, and any bond purchase agreement between the Agency and the Commission relating to the purchase of Bonds issued pursuant hereto by the Agency in accordance with said Chapter 12.2 of Title 46;

"Annual Budget" shall have the meaning given such term in Section 608 hereof;

"Assumed Variable Rate" means in the case of:

(a) Outstanding Bonds in the form of Variable Rate Bonds, the greater of (1) the average interest rate on such Bonds for the most recently completed sixty (60) month period or the period such Variable Rate Bonds has been outstanding if it is less than sixty (60) months, or (2) the rate to be determined pursuant to clause (b) below assuming the Outstanding Variable Rate Bonds were being issued on the date of calculation; and

(b) proposed Bonds in the form of Variable Rate Bonds either

(1) to be issued on the basis that, in the opinion of bond counsel to be delivered at the time of the issuance thereof, interest on such Variable Rate Bonds would be excluded from gross income for federal income tax purposes, the greater of the (i) the average of the Bond Market Association Swap Index ("BMA Index") for the twelve (12) month period ending seven (7) days preceding the date of calculation plus 100 basis points, or (ii) the average of the Bond Market Association Swap Index ("BMA Index") for the sixty (60) month period ending seven (7) days preceding the date of calculation plus 100 basis points, or

(2) to be issued as Variable Rate Bonds not described in clause (1), the greater of the (i) average of the London Interbank Offered Rate ("LIBOR") for the time period most closely resembling the reset period for the Variable Rate Bonds for the twelve (12) month period ending seven (7) days preceding the date of calculation plus 100 basis points, or (ii) average of LIBOR for the time period most closely resembling the reset period for the Variable Rate Bonds for the sixty (60) month period ending seven (7) days preceding the date of calculation plus 100 basis points; and provided that if the BMA Index or LIBOR shall cease to be published, the index to be used in its place shall be that index which the Commission in consultation with the Financial Advisor determines most closely replicates such index, as set forth in a certificate of an Authorized Officer of the Commission filed with the Trustee. Notwithstanding the foregoing, in no event shall the Assumed Variable Rate be in excess of the maximum interest rate allowed by law on obligations of the Commission.

"Authorized Officer" shall mean the Chairperson, the Vice Chairperson, the Executive Director, the Deputy Director, the Treasurer, the Secretary, the Director of Administration and Finance, or the Controller of the Commission, when used in reference to an act or document, shall also mean any other person authorized by resolution of the Commission to perform such act or sign such document;

"Authenticating Agent" shall mean, for the Bonds of a Series or any portion thereof, the Trustee and, where authorized by the applicable Supplemental Indenture, the Paying Agent or Paying Agents for the Bonds of such Series;

"Bond" or "Bonds" shall mean any of the Wastewater System Revenue Bonds of the Commission authenticated and delivered under the Indenture (and, unless expressly stated to the contrary, shall not include Subordinated Bonds; provided that the provisions of Article III, Article IV, Article VIII, Article IX, Article XI and Article XII shall be applicable to Subordinated Bonds). The term shall also include Agency Bonds and obligations of the Commission under any Qualified Swap Agreement (but only to the extent of Qualified Swap Payments);

"Bond Anticipation Notes" shall mean notes of the Commission issued pursuant to Section 45-25-58 of the Act and Section 207 and 607 of this Indenture with a final maturity of not longer than ten (10) years (or such longer period as may be permitted by the Act) in anticipation of the receipt of proceeds of a Series of Bonds;

"Bondholder" or "Holder" or any similar term, when used with reference to a Bond or a Subordinated Bond, shall mean the registered owner of the Bond or the Subordinated Bond, respectively but shall not include any Counterparty under a Qualified Swap Agreement or any other party contracting with the Commission in connection with a Qualified Swap Agreement;

"Bond Insurer" shall have the meaning ascribed in each Supplemental Indenture authorizing an issue of Bonds;

"Business Day" shall mean, except as provided in any Supplemental Indenture, any day other than a Saturday, a Sunday or any other day on which any Fiduciary is authorized or required by law to be closed for business;

"Capital Improvements" shall mean extensions, improvements, enlargements, betterments, alterations, renewals and replacements of the System (including land, equipment and other real or personal properties), which (i) are used or useful in connection with the System or any part thereof and (ii) are properly chargeable (whether or not so charged by the Commission), under generally accepted accounting principles, as additions to capital accounts;

"Capital Improvements Budget" shall mean a capital budget for each Fiscal Year which identifies the Capital Improvements to be undertaken by the Commission during such Fiscal Year, the nature of the work, the estimated completion date of each Capital Improvement, the estimated Costs expected to be expended therefor in such Fiscal Year, and estimated disbursements from any Project Account or Operating Capital Account in the Project Fund and, to the extent provided by the Commission, any other fund or account under or outside the Indenture, as well as the sources of moneys projected to be available to pay such estimated Costs in such Fiscal Year;

"Capitalized Interest Account" shall mean the account, if any, in the Debt Service Fund so designated and created pursuant to Section 506;

"Commission" shall mean the Narragansett Bay Commission or any body, agency, political subdivision, or instrumentality of the State which shall hereafter assume ownership or control of the System;

"Commission Counsel" shall mean the General Counsel of the Commission or any other attorney so designated by an Authorized Officer;

"Compound Interest Bonds" shall have the meaning given such term in Section 203(5) hereof;

"Consulting Engineer" shall mean an independent consultant or engineer or firm of consultants or engineers having a national reputation for expertise in such matters with respect to properties similar to those of the System selected by the Commission; provided that for the

purposes of Section 503(3) the Consulting Engineer may be an engineer regularly in the employ of the Commission;

"Cost", as applied to any Capital Improvement to be constructed or acquired by or on behalf of the Commission shall mean all or any part of the cost, paid by or on behalf of or reimbursable by or to the Commission of construction, acquisition, alteration, reconstruction and remodeling of such Capital Improvement, all lands, real and personal property, rights-of-way, water rights, air rights, franchises, easements and interests necessary or convenient therefor, the cost of any demolitions or relocations necessary in connection therewith, the cost of all machinery and equipment, financing charges, including Costs of Issuance not funded from the proceeds of Bonds, interest on Bonds and Notes issued in whole or in part to finance such construction prior to, during and for such period as the Commission shall determine after the period of construction of such Capital Improvement, architectural, engineering, financial and legal services, plans, specifications, appraisals, surveys, inspections, estimates of costs and revenues, and other expenses necessary or incident to determining the feasibility or practicality of such work, organizational, administrative, Operating Expenses and other expenses prior to the commencement of and during such work, advance training of operating personnel and other expense, including initial working capital, of completing such work and placing the same in operation, and any other item of "Cost" attributable to the construction, acquisition, alteration, reconstruction and remodeling of such Capital Improvement and placing the same in operation; the word "Cost" as applied to any Capital Improvement which the Commission may be authorized to acquire shall also mean the amount of the purchase price or the amount of a condemnation award in connection with the acquisition of such Capital Improvement, and shall include the cost of acquiring all of the capital stock and of discharging any liabilities of a corporation owning such Capital Improvement, if such be the case, in order to vest title to such Capital Improvement in the Commission;

"Cost of Issuance" shall mean all items of expense directly or indirectly payable by or reimbursable to the Commission and related to the authorization, sale and issuance of Bonds, Subordinated Bonds and Notes, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Fiduciaries, legal fees and charges, fees and disbursements of consultants and professionals, costs and expenses of refunding, accrued interest and other costs payable upon or with respect to the initial investment of the proceeds of Bonds, Subordinated Bonds or Notes, premiums for the insurance of the payment of Bonds, Subordinated Bonds or Notes, fees and expenses payable in connection with any Additional Security or Reserve Deposits, unless designated as an Operating Expense, fees and expenses payable in connection with any remarketing agreements or interest rate indexing agreements and any other cost, charge or fee in connection with the original issuance of Bonds, Subordinated Bonds or Notes;

"Counsel's Opinion" shall mean an opinion signed by an attorney or firm of attorneys selected by the Commission and not unsatisfactory to the Trustee;



"Counterparty" means an entity who is a counterparty to a Qualified Swap Agreement. Such entity shall be a member of the International Swap Dealers Association and meet the requirements of applicable laws of the State and the applicable policies and procedures established by the Commission from time to time, provided that the senior unsecured debt of such counterparty shall be in one (1) of the three (3) highest rating categories without regard to gradations within such categories by each of the Rating Agencies at the time of execution of a Qualified Swap Agreement.

"Credit Facility" shall mean, with respect to a Series of Bonds, the irrevocable letter of credit, line of credit, municipal bond insurance, or other form of credit enhancement or liquidity support, if any, for such Series of Bonds, provided for in the applicable Supplemental Indenture, including any alternate Credit Facility with respect to such Series of Bonds delivered in accordance with provisions of the Supplemental Indenture providing for the issuance of such Series of Bonds and including any Credit Facility in connection with a Qualified Swap Agreement.

"Cross-over Date" means with respect to Cross-over Refunding Bonds, the date on which the principal portion of the related Cross-over Refunded Bonds is to be paid or redeemed from the proceeds of such Cross-over Refunding Bonds.

"Cross-over Refunded Bonds" means Bonds or other obligations refunded by Cross-over Refunding Bonds.

"Cross-over Refunding Bonds" means Bonds issued for the purpose of refunding Bonds or other obligations upon the irrevocable deposit of the proceeds of such Cross-over Refunding Bonds in escrow in satisfaction of the requirements of this Indenture or any Supplemental Indenture, as applicable to the Cross-over Refunded Bonds, to secure the payment on an applicable redemption date or maturity date of the Cross-over Refunded Bonds (subject to possible use to pay principal of the Cross-over Refunding Bonds under certain circumstances) and the earnings on such escrow deposit are required to be applied to pay interest on the Cross-over Refunding Bonds until the Cross-over Date.

"Debt Service Assistance" shall mean any money received by or on behalf of the Commission under or pursuant to any agreement or on account of a grant or contribution, heretofore or hereafter made, in aid of, with respect to, or on account of debt service on debt incurred with respect to the System excluding any interest subsidies received from the Agency on account of any of its leveraged loan programs;

"Debt Service Assistance Account" shall mean the account in the Debt Service Fund so designated and created pursuant to Section 502;

"Debt Service Fund" shall mean the fund so designated and created by Section 502;

"Debt Service Fund Requirement" shall mean, as of any particular date of computation, the amount of money obtained by (i) aggregating the several sums, computed with respect to the State Obligations and the Bonds of each Series Outstanding, of (A) any unpaid interest due on such State Obligations or Bonds at or before said date and all interest on such Bonds accrued but not due at said date, plus interest expected to accrue during the next ensuing month, calculated, in the case of a Bond bearing interest at a variable rate, for the remainder of the current interest rate period, at the current interest rate, and for subsequent interest rate periods if any, at the maximum rate applicable to the Bonds, (B) the Principal Amount of any such State Obligations or Bonds matured and unpaid at or before said date, and (C) with respect to any Principal Installment of any State Obligations or Bonds not included in (B) above, but payable on the next succeeding Principal Installment payment date other than by reason of acceleration or redemption at the option of the Commission or the Holder of any Bonds, that portion of such Principal Installment determined by multiplying such Principal Installment by a fraction, the numerator of which shall be the number of days elapsed from and including the immediately preceding Principal Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to the date of such calculation and the denominator of which shall be the number of days from and including the immediately preceding Principal Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to such next succeeding Principal Installment payment date and (ii) deducting amounts on deposit in the Debt Service Fund and Debt Service Assistance Account available to make such payments on such Bonds; provided, that for purposes of any such computation, the Principal Installments of and interest on the Bonds in any period shall, in the case of any Series of Agency Bonds, be limited to the Required Debt Service Fund Deposits set forth for such period in the applicable Supplemental Indenture.

For the purpose of calculating the Debt Service Fund Requirement for any period, the Trustee, at the direction of the Commission, may direct the use of any one or more of the following special rules:

- (i) when calculating the amount of such required deposits during such Fiscal Year for any Series of Variable Rate Bonds with respect to which a Qualified Swap Agreement is in effect pursuant to which the Commission has agreed to pay a Counterparty an amount based on a fixed interest rate, the Debt Service Fund Requirement for such series of Variable Rate Bonds shall include the interest payable on such Series of Bonds, calculated assuming the Assumed Variable Rate, less amounts to be received by the Commission under such Qualified Swap Agreement plus the amount of the payments to be made by the Commission under the Qualified Swap Agreement; provided that such effective fixed rate may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect with respect to the Bonds and so long as such Qualified Swap Agreement is contracted to

remain in full force and effect through the stated maturity date of the Variable Rate Bonds;

- (ii) when calculating the amount of such required deposits during such Fiscal Year for any Series of Bonds with respect to which a Qualified Swap Agreement is in effect pursuant to which the Commission has agreed to pay to a Counterparty an amount based on a variable or floating interest rate, the Debt Service Fund Requirement shall include the interest payable on such Series of Bonds, less fixed amounts to be received by the Commission under such Qualified Swap Agreement plus the amount of the floating payments (estimated applying the Assumed Variable Rate, unless another method of estimation is more appropriate, in the opinion of the Commission's financial advisor, underwriter or similar agent, for such floating payments) to be made by the Commission under the Qualified Swap Agreement; provided that the above described calculation of the Debt Service Fund Requirement may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect with respect to the Bonds and so long as such Qualified Swap Agreement is contracted to remain in full force and effect through the stated maturity date of the such Series of Bonds;
- (iii) when calculating the amount of such required deposits during such Fiscal Year with respect to any Capital Appreciation Bonds, all amounts payable on a Capital Appreciation Bond shall be considered a principal payment in the year it becomes due;

provided further, however, that there shall be excluded from the calculation of the amount of such required deposits (x) interest on Bonds (including Cross-over Refunding Bonds or Cross-over Refunded Bonds) to the extent that Escrowed Interest or capitalized interest is available to pay such interest and (y) principal on Cross-over Refunded Bonds to the extent that the proceeds of Cross-over Refunding Bonds are irrevocably deposited in escrow in satisfaction of the requirements of this Indenture, and such proceeds or the earnings thereon are required to be applied to pay such principal (subject to the possible use to pay the principal of the Cross-over Refunding Bonds under certain circumstances) and such amounts so required to be applied are sufficient to pay such principal.:-

"Debt Service Requirement" shall mean, for any period of calculation, (i) all interest payable on all State Obligations and Bonds Outstanding during such period, plus (ii) the Principal Installment or Installments payable on State Obligations and on such Bonds during such period, less (iii) amounts available to pay Principal Installments and interest becoming due in such Fiscal Year on State Obligations and Bonds Outstanding as of the first day of such Fiscal Year, including but not limited to (A) amounts on deposit in the Debt Service Assistance Account or Debt Service Assistance certified by an Authorized Officer of the Commission as

reasonably expected to be received and deposited to the Debt Service Assistance Account on or before the last day of the Fiscal Year during which the applicable Debt Service Requirement calculation is to be made if such Debt Service Assistance has been appropriated by the applicable governmental entity, if any, or is payable pursuant to an agreement constituting a valid general obligation of the grantor and (B) the amount, if any, of Bond proceeds available or projected to be available to pay Principal Installments and interest becoming due in such Fiscal Year on Bonds Outstanding; provided that the interest and Principal Installments payable on any Series of Agency Bonds during such period shall be limited to the Required Debt Service Fund Deposits for such period set forth in the applicable Supplemental Indenture; and provided, further, for purposes of demonstrating compliance with Section 603(2) (as contemplated by Section 603(4) hereof), that the amount of Debt Service Assistance deducted from such calculation pursuant to clause (iii) above shall include only Debt Service Assistance actually received by the Commission during or on account of such period and deposited in the Debt Service Assistance Account or amounts in anticipation thereof transferred from the Revenue Fund or from general funds of the Commission and deposited in such account. The Debt Service Requirement in respect of a Series of Bonds that constitute Variable Rate Bonds, shall be computed by applying the Assumed Variable Rate.

The Debt Service Requirement for any Series of Bonds with respect to which a Qualified Swap Agreement is in effect or for Capital Appreciation Bonds may, at the direction of the Commission, with the consent of the Bond Insurer, if any, insuring such Series of Bonds, be computed using any of the special rules set forth under the definition of Debt Service Fund Requirement.

"Debt Service Reserve Fund" shall mean the fund so designated and created by Section 502;

"Debt Service Reserve Fund Requirement" shall mean, as of any date of calculation, an amount equal to the lesser of (A) 10% of the original principal amount of such Series of Bonds, (B) one hundred twenty-five percent (125%) of the average annual Debt Service Requirement on a Series of Bonds in any current or future Fiscal Year or other appropriate twelve month period on such Series of Bonds, (C) the maximum aggregate Debt Service Requirement on a Series of Bonds in any current or future Fiscal Year or other appropriate twelve month period on such Series of Bonds, or (D) the maximum amount permitted by federal tax law to be funded from Bond proceeds without requiring yield restriction. The Debt Service Reserve Fund Requirement, in respect of a Series of Bonds that constitute Variable Rate Bonds, shall be computed by applying the Assumed Variable Rate. In computing the Debt Service Reserve Fund Requirement in respect of a Series of Variable Rate Bonds with respect to which a Qualified Swap Agreement is in effect pursuant to which the Commission has agreed to pay a Counterparty an amount based on a fixed interest rate, such Series of Variable Rate Bonds shall be deemed to bear interest at an effective rate equal to the fixed interest rate payable by the Commission under such Qualified Swap Agreement; provided that such effective fixed rate may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect (without

regard to any credit enhancement) with respect to the Bonds and so long as such Qualified Swap Agreement is contracted to remain in full force and effect through the stated maturity date of the Variable Rate Bonds. The Commission may, by Supplemental Indenture, establish a different Debt Service Reserve Fund Requirement for a subaccount of a Debt Service Reserve Account that is established to secure one or more, but less than all Series of Bonds issued under this Indenture. There shall be no Debt Service Reserve Fund Requirement for any Series of Agency Bonds Outstanding on the date of this Indenture.

"Depository" shall mean any bank or trust company selected in accordance with Section 803 hereof as a depository of moneys to be held under the provisions of this Indenture, and may include the Trustee;

"Discount Bonds" shall have the meaning given such term in Section 203(5) hereof;

"Fiduciary" shall mean the Trustee, any Paying Agent, any Depository or any Authenticating Agent;

"Financial Advisor" shall mean an attorney or firm or firms of national recognition experienced in matters relating to the planning and marketing of obligations similar in nature to the Bonds.

"Fiscal Year" shall mean the period beginning on July 1 of any calendar year and ending on June 30 of the next succeeding calendar year or such other period of twelve calendar months as may be authorized as the fiscal year of the Commission;

"Fixed Rate Bonds" shall have the meaning given such term in Section 203(2) hereof;

"Government Obligations", except as provided in any Supplemental Indenture in connection with the issuance of a Series of Bonds, shall mean (i) direct general obligations of the United States of America and bonds, notes or other obligations which as to both principal and interest are unconditionally guaranteed by the United States of America and (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the Bonds or

other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate;

The terms "herein", and "hereunder", "hereby", "hereof", and any similar terms, refer to the Indenture as a whole; the term "heretofore" shall mean before the effective date of the Indenture, and the term "thereafter" shall mean after the effective date of the Indenture;

"Indenture" shall mean this Trust Indenture as the same may be amended or supplemented in accordance herewith;

"Insurance Reserve Fund" shall mean the fund so designated and created pursuant to Section 502;

"Insurance Reserve Fund Requirement" shall have the meaning given to such term in Section 606;

"Net Revenues" shall mean, for any period of computation, all Revenues (excluding Debt Service Assistance deposited in the Debt Service Assistance Account and any proceeds of insurance, condemnation or the sale or other disposition of any part of the System deposited in the Revenue Fund during such period, but including unrestricted fund balance on the books of the System) received by the Commission during such period and deposited in the Revenue Fund plus (i) the amount of any Reserved Revenues directed by the Commission to be withdrawn from the Stabilization Account and transferred from the Stabilization Account in accordance with Section 506, less (ii) all amounts withdrawn from the Revenue Fund during such period and (iii) deposited in the Operation and Maintenance Fund, the Rebate Fund and the Stabilization Account or (iv) required to be deposited in the Debt Service Reserve Fund during such period;

"Notes" shall mean any obligations (other than Bonds or Subordinated Bonds) issued or incurred by the Commission to finance the Costs of Capital Improvements or Operating Expenses;

"Operating Capital Account" shall mean the accounts so designated in the Project Fund and created in accordance with Section 503;

"Operation and Maintenance Fund" shall mean the fund so designated and created by Section 502;

"Operating Expenses" shall mean any expenses incurred by or for the account of the Commission or reimbursable by or to the Commission for operation, maintenance, renewal and repair of the System including, without limiting the generality of the foregoing, administrative expenses, financial, legal and auditing expenses, insurance premiums, payments on claims against the Commission to the extent monies are unavailable therefor in the Insurance Reserve

Fund or to the extent such claims shall fall within such reasonable deductible limits as may be determined by the Commission, if any, payments in lieu of taxes, taxes, if any, payments of rates, assessments or other charges to the Commission with respect to the System, legal and engineering expenses relating to operation and maintenance, payments and reserves for pension, retirement, health, hospitalization and sick leave benefits for Commission employees allocable to the System and any other similar expenses required to be paid by the Commission, all to the extent properly and directly attributable to the System, and the expenses, liabilities and compensation of the Fiduciaries required to be paid under the Indenture, but does not include the Cost of any Capital Improvement or any provision for interest, depreciation, amortization or similar charges on any indebtedness except for (i) interest paid on notes, and renewals thereof, issued in accordance with Section 607(2) (to the extent not included in the Cost of any Project), and (ii) payments made with respect to any indebtedness represented by leases, mortgages, security interests and other encumbrances permitted by Section 604(3);

"Operation and Maintenance Reserve Fund" shall mean the fund so designated and created by Section 502;

"Operation and Maintenance Reserve Fund Requirement" shall have the meaning given to such term in Section 608;

"Outstanding", when used with reference to Bonds or Subordinated Bonds, shall mean as of any particular date, all Bonds or Subordinated Bonds theretofore and thereupon being authenticated and delivered except (1) any Bond or Subordinated Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Commission or by any other Fiduciary, at or before said date, (2) any Bond or Subordinated Bond for the payment or redemption of which moneys equal to the Principal Amount or Redemption Price thereof, as the case may be, with interest to the maturity or redemption date, shall have theretofore been deposited with the Trustee in trust (whether upon or prior to maturity or the redemption date of such Bond or Subordinated Bond) and, except in the case of a Bond or Subordinated Bond to be paid at maturity, of which notice of redemption shall have been given or provided for in accordance with Article IV, (3) any Bond or Subordinated Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to Article III, Section 406 or Section 1006, and (4) any Bond or Subordinated Bond deemed to have been paid as provided in Section 1101;

"Paying Agent" shall mean any paying agent or co-paying agent for Bonds or Subordinated Bonds of any Series appointed pursuant to the Indenture or an applicable Supplemental Indenture and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Indenture;

"Permitted Investments" shall mean, except as provided in any Supplemental Indenture in connection with a Series of Bonds, and include any of the following securities, if and to the extent the same are at the time legal for investment of the funds held pursuant to this Indenture:

- (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any Federal agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America, and any certificates or receipts representing direct ownership of future interest or principal payments in such bonds or other obligations;
- (ii) public housing bonds issued by public agencies or municipalities and fully guaranteed as to the payment of both principal and interest by the United States of America; temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the timely payment of both principal and interest by a requisition or payment agreement with the United States of America, or obligations issued by any state or any public agencies or municipalities which at the time of purchase are rated in either of the two highest rating categories by each Rating Agency then maintaining a rating on such obligations;
- (iii) direct and general obligations of any state of the United States to the payment of the principal of and interest on which the full faith and credit of such state is pledged, and direct and general obligations of any political subdivision of any such state to the payment of which the full faith and credit and unlimited ad valorem taxing power of such political subdivision is pledged, provided that at the time of their purchase under the Indenture such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;
- (iv) commercial paper rated in the highest category by each Rating Agency then maintaining a rating on such commercial paper;
- (v) investments in a money market fund or other fund the investments of which consist exclusively of obligations described in clause (i) above;
- (vi) bank time deposits evidenced by certificates of deposit issued by banks or savings and loan institutions (which may include any Fiduciary) having at the time of purchase a combined capital and surplus of not less than \$50,000,000 which are members of the Federal Deposit Insurance Corporation; provided that any such time deposits in excess of applicable federally insured limits are fully secured by obligations described in clause (i) above, which such obligations at all times have a market value



(exclusive of accrued interest) at least equal to such bank time deposits so secured, including interest;

- (vii) repurchase agreements relating to securities of the type specified in clause (i) above with banks or trust companies having a combined capital and surplus of not less than \$50,000,000 or with government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; provided that the market value of such securities is at the time of entering into such agreement at least one hundred three percent (103%) of the repurchase price specified in the agreement; and provided further that such securities are delivered to or held by the Trustee or a depository satisfactory to the Trustee in such manner as may be required to provide a perfected security interest in such securities;
- (viii) investment contracts with, or guaranteed by, banks or other financial institutions whose long-term unsecured debt or claims-paying ability at the time of purchase is rated in one of the three highest rating categories for such debt or claims-paying ability by each Rating Agency then maintaining a rating on such banks or other financial institutions;
- (ix) bonds, notes or other evidences of indebtedness issued or guaranteed by the Federal Banks for Cooperatives, Federal Intermediate Credit Bank, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank System, Federal Land Banks, Export-Import Bank of the United States, Federal National Mortgage Association, Government National Mortgage Association or any agency or Instrumentality of or corporation wholly owned by the United States of America; and
- (x) Advance-Refunded Municipal Bonds.

"Principal Amount," with respect to any Bond or Subordinated Bond, shall mean the stated principal thereon or such other amount payable on any Compound Interest Bond or Discount Bond designated as the Principal Amount thereof pursuant to the applicable Supplemental Indenture;

"Principal Installment" shall mean, as of any particular date of computation and with respect to State Obligations, Bonds or Subordinated Bonds of a particular Series, an amount of money equal to the aggregate of (i) the Principal Amount of State Obligations, Outstanding Bonds or Subordinated Bonds of said Series which mature on such date, reduced by the aggregate Principal Amount of such State Obligations, Outstanding Bonds or Subordinated Bonds which would at or before said date be retired by reason of the payment when due and application in accordance with the Indenture of Sinking Fund Payments payable at or before said

date for the retirement of such State Obligations, Outstanding Bonds or Subordinated Bonds, plus (ii) the amount of any Sinking Fund Payment payable on said date for the retirement of any State Obligations, Outstanding Bonds or Subordinated Bonds of said Series;

"Principal Office," when used with respect to a Fiduciary, shall mean the office where such Fiduciary maintains its principal office or, where different, its principal corporate trust office;

"Project" shall mean a Capital Improvement, all or a portion of the Cost of which is financed by Bonds;

"Project Account" shall mean one of the accounts so designated in the Project Fund created by Section 503;

"Project Fund" shall mean the fund so created by Section 502;

"PUC" shall mean the Public Utilities Commission of the State of Rhode Island created pursuant to Chapter 39-1 of the General Laws of Rhode Island, as amended from time to time;

"Purchase Fund" shall mean the fund so designated by Section 502 and created by any Supplemental Indenture;

"Purchase Price" shall mean, except as provided in any Supplemental Indenture, the price at which a Series of Bonds is purchased;

"Qualified Swap Agreement" shall mean (a) an agreement between the Commission or the Trustee (at the written direction of the Commission) and Counterparty which is an Interest Rate Swap, forward rate agreement, commodity swap, interest rate option, forward foreign exchange agreement, rate cap agreement, rate floor agreement, rate collar agreement, currency swap agreement, embedded cap, cross-currency rate swap agreement, currency option, any other similar agreement (including any option to enter into any of the foregoing), (b) any combination of the foregoing, or (c) a master agreement for any of the foregoing together with all supplements. If at the time the Commission enters into a Qualified Swap Agreement payable from the Trust Estate a Rating Agency rates any Series of Bonds (without regard to credit enhancement) below "A-", then the approval of the Bond Insurer must be obtained prior to the entry into such Qualified Swap Agreement.

"Qualified Swap Payments" means as of each payment date specified in a Qualified Swap Agreement, the amount, if any, payable to the Counterparty by the Commission or the Trustee on behalf of the Commission, but excluding any payments due from the Commission or the Trustee on behalf of the Commission, as a cost, expense or fee under the Qualified Swap Agreement, including, but not limited to, any swap termination payment or indemnification of the Counterparty.

"Qualified Swap Receipts" means as of each payment date specified in a Qualified Swap Agreement, the amount, if any, payable to the Commission or the Trustee for the account of the Commission by the Counterparty.

"Rates and Charges" shall mean, except as otherwise expressly provided herein, all fees, rates, rents, assessments and other charges established by or on behalf of the Commission for the services, facilities and commodities furnished or supplied by it from the operation of the System;

"Rating Agency" shall mean Fitch, Moody's Investors Service or Standard & Poor's and their respective successors and assigns and shall also include any other rating agency nationally recognized for skill and expertise in rating the credit of obligations such as the Bonds or Subordinated Bonds;

"Rebate Fund" shall mean the fund so designated by any Supplemental Indenture;

"Redemption Fund" shall mean the fund so designated and created by Section 502;

"Redemption Price" shall mean, with respect to any Bond or Subordinated Bond or portion thereof, the Principal Amount thereof or of such portion, or such other amount as may be provided in the applicable Supplemental Indenture, plus the premium, if any, payable upon redemption thereof;

"Refunding Bonds" shall mean any of the Bonds authorized by Section 206;

"Reimbursement Obligation" shall have the meaning given such term in Section 208;

"Remarketing Agent" shall mean any agent appointed pursuant to the applicable Supplemental Indenture to remarket Tender Bonds as defined in Section 203(4);

"Renewal and Replacement Reserve Fund" shall mean the fund so designated and created by Section 502;

"Renewal and Replacement Reserve Fund Requirement" shall have the meaning given such term by Section 609;

"Required Debt Service Fund Deposits" shall mean, with respect to each Series of Agency Bonds, the amounts so designated pursuant to Section 205(1)(ix) of this Indenture and the applicable Supplemental Indenture;

"Reserve Deposits," except as set forth in any Supplemental Indenture, shall mean one or more of the following:

- (i) irrevocable, unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or of the holding company of such banking institution) have (at the time of issue of such letter of credit) a rating within the two highest rating categories generally available to banking institutions by each Rating Agency rating such debt without regard to any gradations within such categories; or
- (ii) irrevocable and unconditional policies of insurance in full force and effect issued by municipal bond insurers the obligations insured by which are eligible for a rating at the time of issuance of such policies within the two highest rating categories available to insurers generally issuing such insurance by each Rating Agency rating such insurance without regard to any gradations within such categories.

in each case providing for the payment of sums for the payment of Principal Installments and interest on Bonds in the manner provided under Section 508;

"Reserved Revenues" shall mean, as of any date of calculation, the amount then on deposit in the Stabilization Account of the Debt Service Fund;

"Revenue Anticipation Notes" shall mean Notes issued in accordance with Section 607 hereof in anticipation of user fees or the receipt of state or federal funds;

"Revenue Fund" shall mean the "Narragansett Bay Commission Water Quality Management District Commission Fund" so designated and created in accordance with the Act as described in Section 502;

"Revenues" shall mean and include (except as otherwise expressly provided herein) (i) all income, revenues, receipts, and other moneys, including any unrestricted fund balance attributable to the operation of the System, (a) derived by the Commission from its ownership and operation of the System (including collections by or on behalf of the Commission on account of services and commodities furnished or supplied by the System prior to the effective date of the Indenture) or (b) derived from any other source, to the extent such moneys are deposited or required to be deposited to the Revenue Fund by the Commission from time to time pursuant to a Supplemental Indenture (provided that any such moneys shall not be considered Revenues for purposes of Section 603(2) of this Indenture unless at the time of the deposit thereof to the Revenue Fund an Authorized Officer shall have submitted to the Trustee a certificate designating such moneys as Revenues for such purpose) and (ii) all accounts, general intangibles and contract or other rights to receive the Revenues described in clause (i), whether existing at the effective date of the Indenture or thereafter coming into existence and whether held by the Commission at the effective date of the Indenture or thereafter acquired, and the proceeds thereof, including, without limiting the generality of the foregoing, receipts from Rates and Charges and from the earnings on the investment of any moneys held under the Indenture by the Trustee, a Depository

or the Commission or remitted to the Commission by the Agency (other than moneys held in the Rebate Fund, the Purchase Fund, if any, and the Unrestricted Fund), receipts from fees, rates, assessments and other charges to any political subdivision of the State for services or commodities furnished or supplied by the System, proceeds of any grant or appropriation for or on account of Operating Expenses received by the Commission from the United States or the State or from any agency, instrumentality or political subdivision of either thereof, Debt Service Assistance and except to the extent otherwise provided herein, proceeds of the sale or other disposition of all or any part of the System and of insurance and condemnation awards received with respect to the System or any part thereof and Qualified Swap Receipts, but not including (i) any amounts not deemed "Revenues" pursuant to Section 515 hereof, (ii) the proceeds of the \$87,700,000 Narragansett Bay Water Quality Management District Commission Loan of 1980 and any premium or premiums and accrued interest received for such loan, and (iii) proceeds received by the Commission pursuant to any Agency Loan Agreement;

"Series" when used with respect to less than all of the Bonds or Subordinated Bonds, shall mean or refer to all of the Bonds or Subordinated Bonds authenticated and delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions and may also mean, if appropriate, a lot or subseries of any Series if, for any reason, the Commission should determine to divide any Series into two or more lots or subseries;

"Series Debt Service Reserve Fund Requirement" shall mean, as of any date of calculation, the aggregate amount required to be deposited to the Debt Service Reserve Fund pursuant to the Supplemental Indenture applicable to a particular Series of Bonds;

"Sinking Fund Payment" shall mean, as of any particular date of computation and with respect to Bonds or Subordinated Bonds of a particular Series, the amount of money required by any Supplemental Indenture to be paid by the Commission on such date for the retirement of any Outstanding Bonds or Subordinated Bonds of said Series which mature after said date, but does not include any amount payable by the Commission by reason of the redemption of Bonds or Subordinated Bonds at the election of the Commission or the Holders of such Bonds;

"Stabilization Account" shall mean the account in the Debt Service Fund so designated and created in accordance with Section 502;

"State" shall mean the State of Rhode Island and Providence Plantations;

"State Obligations" shall mean obligations of the Commission to the State with respect to principal of, premium, if any, and interest on State debt required to be paid by the Commission under Rhode Island General Laws Section 46-25-5(9);

"State Obligations Reimbursement Account" shall mean the account so designated and created in the Debt Service Fund in accordance with Section 502;

"Subordinated Bonds" shall have the meaning given such term in Section 209 hereof;

"Supplemental Indenture" shall mean any indenture of the Commission amending or supplementing the Indenture adopted and becoming effective in accordance with the terms of Article IX;

"System" shall mean the wastewater system of the Commission, together with any Capital Improvements or other additions thereto and substitutions for any part thereof heretofore or hereafter acquired or made by or on behalf of the Commission, and all other properties of the Commission used in, or necessary or desirable for, the operation of such system;

"Trust Estate" means all right, title and interest of the Commission in and to (i) all Revenues, and (ii) all monies, securities and Reserve Deposits in all funds and accounts established by or pursuant to the Indenture, except the Operation and Maintenance Fund, the Rebate Fund, the Purchase Fund, if any, and the Unrestricted Fund, if established;

"Trustee" means the trustee appointed in accordance with Section 801, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Indenture; and

"Unrestricted Fund" shall mean the fund so designated and created by Section 502.

## ARTICLE II

### AUTHORIZATION AND ISSUANCE OF BONDS

Section 201. Authority for the Indenture. The Indenture is adopted pursuant to the Act and pursuant to Section 3 of Chapter 397 of the Rhode Island Public Laws of 1996 and the resolution of the Commission adopted on February 11, 2004.

Section 202. Indenture to Constitute Contract. In consideration of the transfer by the State of the Narragansett Bay Water Quality Management District Commission Fund to the Commission, and the purchase and acceptance of the Bonds and Subordinated Bonds by those who shall own the same from time to time, the Indenture shall constitute a contract between the Commission, the State, and the Holders from time to time of the Bonds and Subordinated Bonds, and the pledges made in the Indentures and the covenants and agreements therein set forth to be performed by or on behalf of the Commission shall be, subject to the provisions of Section 209, for the equal benefit, protection and security of the Holders of any and all of the State Obligations, the Bonds and Subordinated Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, of any of the State Obligations over any other thereof, or of any of the Subordinated Bonds over any other thereof, except as expressly provided in or permitted by the Indenture.

Pursuant to the Act, the State has pledged to and agreed with the Holders of any Bonds or Notes issued pursuant to the Act and this Indenture, that the State will not limit or alter the rights of the Commission to fulfill the terms of this Indenture until such Bonds and Notes and the interest thereon are fully paid.

This Indenture shall replace and supercede the Trust Agreement between the Commission and Citizens Bank of Rhode Island, as Trustee dated as of July 1, 1997.

Section 203. Authorization of Bonds. (1) There is hereby authorized one or more Series of Bonds of the Commission to be designated as "Wastewater System Revenue Bonds," which Bonds may be issued as hereinafter provided from time to time, without limitation as to amount except as provided in the Indenture or as limited by law. Bonds may be issued in accordance with this Section for the purpose of (i) paying all or a portion of the Cost of any Project, (ii) the making of deposits in all funds and accounts, excluding the Unrestricted Fund, established hereunder, (iii) the payment of Costs of Issuance and the discount, if any, payable upon issuance of such Series of Bonds, (iv) the payment of the principal of and interest and premium, if any, on Notes issued in anticipation of such Bonds, (v) the securing of the Commission's repayment obligations with respect to, or sale to the Agency pursuant to, one or more Agency Loan Agreements or (vi) any combination of the foregoing. The Bonds may, if and when authorized by the Commission pursuant to one or more Supplemental Indentures, be issued in one or more Series, and within a Series, in one or more subseries or lots, and the designation thereof, in addition to the name "Wastewater System Revenue Bonds," may include such further appropriate designations added to or incorporated in such title for the Bonds of any particular Series, subseries or lots as the Commission may determine. The Bonds may be issued as Fixed Rate Bonds, Variable Rate Bonds, Tender Bonds, Compound Interest Bonds, Deferred Interest Bonds, Discount Bonds, Refunding Bonds, Cross-over Refunding Bonds, or any combination thereof in accordance with applicable provisions set forth below and the applicable Supplemental Indenture.

(2) The Commission may issue Bonds hereunder which bear a fixed rate or rates of interest during the term thereof ("Fixed Rate Bonds"). The applicable Supplemental Indenture shall specify the rate or rates of interest borne by such Bonds and the interest payment dates thereof.

(3) The Commission may issue Bonds ("Variable Rate Bonds") hereunder which provide for a variable, adjustable, convertible or other similar rates of interest, not fixed as to percentage at the date of issue thereof. Any Variable Rate Bond issued hereunder may be issued with provisions allowing conversion of such Bond, at the option of the Commission or the Holder thereof, into a Fixed Rate Bond or a Bond bearing a different Variable Rate. If any Variable Rate Bonds are issued hereunder, the applicable Supplemental Indenture shall specify:

- (i) a maximum interest rate (the "Variable Rate Ceiling") payable on such Bonds during the period while such Bonds shall be Variable Rate Bonds;

- (ii) the method or methods for determining the interest rate borne by such Bonds and the frequency of change thereof; and
- (iii) if deemed desirable by the Commission, provisions with respect to the conversion of such Bonds to Fixed Rate Bonds or Bonds in a different Variable Rate mode and the further conversion of such Fixed Rate Bonds to Variable Rate Bonds.

The method or methods for determining the interest rate on Variable Rate Bonds pursuant to (ii) above may include the selection of such rate by a Remarketing Agent as provided in an agreement between the Commission and such Remarketing Agent, the utilization of an index or indices as described in the applicable Supplemental Indenture, or such other standard or standards set forth by the Commission in the applicable Supplemental Indenture or any combination of the foregoing.

(4) The Commission may provide that Bonds issued as Variable Rate Bonds or Fixed Rate Bonds may include an option exercisable by the Holders thereof to have such Bonds ("Tender Bonds") either repurchased or redeemed prior to the maturity thereof. If any Tender Bonds are issued hereunder, the applicable Supplemental Indenture shall specify:

- (i) the period or periods during which and the circumstances under which such option may be exercised, including provisions for the variation of such periods;
- (ii) provisions as the Commission shall deem desirable, with respect to the repurchase of such Bonds and the remarketing thereof, including provisions with respect to the appointment of a Remarketing Agent therefor;
- (iii) provisions, as the Commission shall deem desirable, for the adjustment of the interest rate or maturity of such Bonds upon the exercise of any such option; and
- (iv) the Purchase Price.

Unless otherwise provided in the applicable Supplemental Indenture, any Tender Bonds which shall have been repurchased pursuant to any remarketing agreement or with the proceeds of a Reserve Deposit and not otherwise redeemed by the Commission shall continue to be Outstanding Bonds hereunder.

Any Variable Rate Bonds which contain an option to convert such Bonds to Fixed Rate Bonds shall be deemed Variable Rate Bonds hereunder until the date of such conversion and, unless such Bonds may be subsequently reconverted to Variable Rate Bonds, on and after such date such Bonds shall be deemed Fixed Rate Bonds.



(5) The Commission may issue Bonds which provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms with respect thereto determined by an applicable Supplemental Indenture ("Compound Interest Bonds"). The Commission may issue Bonds which either bear a zero stated rate of interest or bear a stated rate of interest such that such Bonds are sold to the public on original issuance at a price less than the aggregate Principal Amount thereof in order to provide such yield thereon as deemed appropriate and desirable thereon by the Commission ("Discount Bonds"). In the applicable Supplemental Indenture for any Compound Interest Bonds or Discount Bonds, the Commission shall provide for the method of determination of the Principal Amount and "interest" payable on such Bonds as of any date of calculation and for the purposes hereof such terms with respect to such Bonds shall have the meanings given in such applicable Supplemental Indenture.

(6) The Commission may issue Deferred Interest Bonds. In the applicable Supplemental Indenture for any Deferred Interest Bonds, the Commission shall provide for the rate at which interest accrues on such Deferred Interest Bonds, the time period during which the Deferred Interest Bonds do not pay interest on a current basis, the amount by which the Principal Amount of such Deferred Interest Bond will increase when interest is not paid on a current basis, and the amount of interest payable annually, if any.

(7) For purposes of this Section, Bonds shall include Subordinated Bonds.

(8) The Commission may issue Refunding Bonds and Cross-over Refunding Bonds, as provided herein.

Section 204. [RESERVED].

Section 205. General Provisions for Issuance of Bonds: (1) Bonds of any Series shall be authorized by a Supplemental Indenture which shall specify:

- (i) the authorized Principal Amount, designation, manner of numbering and lettering and Series of such Bonds;
- (ii) the date of such Bonds and the date or dates of maturity thereof;
- (iii) the Redemption Price or Prices and the time or times and other terms of redemption, if any, of any of such Bonds;
- (iv) the amount and date of each Sinking Fund Payment, if any, required to be paid for the retirement of any of such Bonds of like maturity;
- (v) the manner in which the proceeds, if any, of such Bonds are to be applied;

- (vi) the Project or Projects, if any, to be financed by such Bonds and the designation of a Project Account, if any, for the Bonds of such Series;
- (vii) the form or forms of the Bonds of such Series;
- (viii) the Series Debt Service Reserve Fund Requirement, if any, applicable to the Bonds of such Series;
- (ix) if the Bonds are Agency Bonds, the Required Debt Service Fund Deposits to be made to the Debt Service Fund in compliance with the applicable Agency Loan Agreement, taking into account any principal or interest subsidies available to the Commission in connection with such Agency Loan Agreement;
- (x) the minimum denomination, if any, applicable to the Bonds of such Series; and
- (xi) any other provisions deemed advisable by the Commission not in conflict with the Indenture.

(2) The Bonds of each Series shall be executed by the Commission and delivered to the Authenticating Agent for such Series of Bonds and by it authenticated and delivered to or upon the order of the Commission, but only upon receipt by the Trustee of:

- (i) written order signed by an Authorized Officer of the Commission as to the authentication and delivery of such Bonds;
- (ii) a copy of the applicable Supplemental Indenture executed by an Authorized Officer;
- (iii) an amount of moneys or Reserve Deposits in a stated amount such that following the issuance of such Bonds and application of their proceeds, the amounts on deposit in and the aggregate stated and unpaid amount of all Reserve Deposits held as part of the Debt Service Reserve Fund shall equal the Debt Service Reserve Fund Requirement, if any; provided, however, that the applicable Supplemental Indenture may provide that the Series Debt Service Reserve Fund Requirement, if any, attributable to any Series of Agency Bonds may be funded in substantially equal monthly installments over a period of time after issuance as specified in the applicable Supplemental Indenture (which period shall not exceed 24 months);
- (iv) a certificate of a Consulting Engineer or Certified Public Accountant (a) setting forth the estimated annual Net Revenues for each of the three full

Fiscal Years following the issuance of such Bonds (including the Fiscal Year in which such Bonds are issued), after giving effect to any increases or decreases in Rates and Charges projected to be in effect for such period, and to the Series Debt Service Reserve Fund Requirement attributable to such Bonds and to any additional Revenues projected to be available during such period, and (b) showing for each of such Fiscal Years that the estimated annual Net Revenues for such Fiscal Year together with the amounts of Reserved Revenues, if any, available in such Fiscal Year (as calculated by an Authorized Officer at the time of the issuance of such Bonds) will be, except with respect to Agency Bonds, at least equal to one hundred twenty-five percent (125%) and with respect to Agency Bonds, at least equal to one hundred thirty-five percent (135%) of the Required Debt Service Fund Deposits for Agency Bonds (based on debt service net of any interest rate subsidy) for such Fiscal Year (or such higher amount as may be set forth in the Supplemental Indenture authorizing the issuance of such Series of Bonds) of (A) the Debt Service Requirement for such Fiscal Year less (B) the amount, if any, of Bond proceeds available or projected to be available to pay Principal Installments and interest becoming due in such Fiscal Year on Bonds Outstanding or projected to be Outstanding as of the first day of such Fiscal Year; provided that the Consulting Engineer's or Certified Public Accountant's certificate shall not project any increase in Rates and Charges during the first full Fiscal Year of the projection period which has not been adopted by the Commission for such Fiscal Year on or before the date of such certificate;

- (v) if on the date of issuance of such Series of Bonds the Commission has any outstanding obligation to replenish the Debt Service Reserve Fund under Section 508(4), evidence that the Commission has made at least one monthly payment with respect to such obligation on or before the date required thereunder;
- (vi) a certificate of an Authorized Officer stating that, as of the date of delivery of such Bonds, no Event of Default, as described in Section 701, has occurred and is continuing; and
- (vii) to the extent required by law, an order of the Division of Public Utilities approving the issuance of the Bonds.

Section 206. Special Conditions Precedent to the Delivery of Refunding Bonds. (1) One or more Series of Refunding Bonds or Cross-over Refunding Bonds may be issued in accordance with this Section for the purpose of refunding all or any part of the Bonds of one or more Series Outstanding.

(2) A Series of Refunding Bonds or Cross-over Refunding Bonds shall be executed by the Commission and delivered to the Authenticating Agent for such Series of Bonds and by it authenticated and delivered to or upon the written order of the Commission, but only upon receipt by the Trustee of the documents required for the issuance of Bonds set forth in the Indenture, provided that in lieu of the certificate satisfying the conditions of Section 205(2)(iv) the Commission may deliver to the Trustee a certificate of an Authorized Officer setting forth the Debt Service Fund Requirement for each Fiscal Year in which Bonds are or will be Outstanding (a) computed immediately prior to the delivery of such Refunding Bonds and (b) computed immediately after the delivery of such Refunding Bonds, and stating that the Debt Service Fund Requirement in each Fiscal Year in which Bonds will be Outstanding as computed in clause (b) of this sentence will not be greater than the Debt Service Fund Requirement in each such Fiscal Year as computed in clause (a) of this sentence.

Section 207. Bond Anticipation Notes. Whenever the Commission shall authorize the issuance of a Series of Bonds, the Commission may by resolution pursuant to Rhode Island General laws § 46-25-58 and Section 607(b) hereof authorize the issuance of Bond Anticipation Notes (and renewals thereof) in anticipation of such Series. Except as otherwise provided in the Supplemental Indenture authorizing the same, the proceeds of such Bond Anticipation Notes shall be deposited in a Project Account established pursuant to Section 503(2) hereof. The principal of and interest on such Bond Anticipation Notes and renewals thereof shall be payable from any moneys of the Commission pledged therefor, from the proceeds of such Bond Anticipation Notes or from the proceeds of the sale of the Series of Bonds in anticipation of which such Bond Anticipation Notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such Bond Anticipation Notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Indenture. Subject to Section 607, the Commission may also pledge the Revenues to the payment of such Bond Anticipation Notes. A copy of the resolution of the Commission authorizing such Bond Anticipation Notes shall be delivered to the Trustee immediately following adoption, together with such other information concerning such Bond Anticipation Notes as the Trustee may reasonably request. The terms, conditions and details of the Bond Anticipation Notes shall be governed by the Act.

Section 208. Additional Security. In addition to the security provided for the Bonds hereunder, in connection with any Series of Bonds hereunder, the Commission may obtain or cause to be obtained letters of credit, lines of credit, insurance or similar obligations, agreements or instruments ("Additional Security") securing or providing for the payment of all or a portion of the Principal Installments or Redemption Price of, or interest due or to become due on, such Bonds or providing for the purchase of such Bonds or a portion thereof by the issuer or obligor of any such Additional Security. In connection therewith the Commission may enter into such agreements with the issuer of or obligor on such Additional Security providing for, among other things, the payment of fees and expenses to such issuer or obligor for the issuance of such Additional Security, which fees and expenses may be Costs of Issuance or Operating Expenses as appropriate, the terms and conditions of such Additional Security and the Series of Bonds affected thereby, and the security, if any, to be provided for the issuance of such Additional

Security and the payments of such fees and expenses or the obligations of the Commission with respect thereto.

In addition to any security permitted hereunder, the Commission may secure its obligations with respect to any Additional Security by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Commission in the applicable Supplemental Indenture. The Commission may also in an agreement with the issuer of or obligor on such Additional Security agree to directly reimburse ("Reimbursement Obligations") such issuer or obligor for amounts paid under the terms of such Additional Security, together with interest thereon. Such Reimbursement Obligations may be secured by a lien on Revenues which, upon payment of amounts payable under the terms of such Additional Security and application of such amounts as provided in the agreements providing therefor, may be on a parity with the lien created by Section 501 hereof. So long as no amounts shall be paid under such Additional Security and such Reimbursement Obligations shall remain contingent, such Reimbursement Obligations shall not be taken in account hereof under the provisions of Section 603, provided the issuer of or obligor on such Additional Security may be deemed a Holder hereunder, including the Holder of all Bonds secured thereby, for the purposes of voting, giving consents, receiving notices and otherwise as may be specified in the applicable Supplemental Indenture. Upon the payment of amounts under the Additional Security which results in a Reimbursement Obligation becoming due and payable, such Reimbursement Obligation shall be deemed a Bond Outstanding hereunder for the purposes of Section 603 and for such other purposes hereunder as may be specified in the applicable Supplemental Indenture.

#### Section 209. Subordinated Bonds.

(1) The Commission may, subject to the conditions set forth in this Section 209, from time to time issue bonds which shall be secured by a pledge of the Trust Estate that is subordinate to the pledge effected by Section 501 hereof for the benefit of Bonds. Such Subordinated Bonds shall contain an express statement to the effect that payment of the principal of and interest on such Subordinated Bonds is subordinate in all respects to the payment of the principal of and interest on Bonds and that the lien and security interest on the Trust Estate established for the benefit of such Subordinated Bonds is subordinate in all respects to the lien and security interest on the Trust Estate created for the benefit of Bonds. Funds on deposit in the Debt Service Reserve Fund shall be excluded from the Trust Estate pledged for the benefit of such Subordinated Bonds and shall not be applied to the payment of principal of or interest on such Subordinated Bonds. The Supplemental Indenture with respect to any Subordinated Bonds may establish separate reserves for the benefit of such Subordinated Bonds (which may be excluded from the Trust Estate pledged for the benefit of Bonds), shall specify the terms and conditions applicable to such Subordinated Bonds, and shall make such amendments to this Indenture as are certified by an Authorized Officer of the Commission to be necessary to provide for the issuance of Subordinated Bonds, the payment thereof and the default and remedies provisions applicable thereto and to effect the subordination of payments with respect to such Subordinated Bonds to payments due on the Bonds.

(2) In the event that one or more Series of Outstanding Bonds has been assigned a rating by any Rating Agency, no Subordinated Bonds shall be issued pursuant to this Section 209 unless the Commission has provided (i) evidence to the Trustee that either (a) each such Rating Agency has confirmed in writing that such issuance of Subordinated Bonds will not adversely affect the ratings on each such Series of Outstanding Bonds provided by such Rating Agency or (b) each such Rating Agency has issued a rating on such Subordinated Bonds which is no lower than the rating assigned by such Rating Agency to any Series of Outstanding Bonds (which rating in each case is not based on Additional Security, if any, provided for such Series of Subordinated Bonds or Series of Outstanding Bonds, as applicable) prior to such issuance or (ii) any other evidence satisfactory to the Trustee that such adjustment will not adversely affect the then current ratings, if any, assigned to any Outstanding Bonds by any Rating Agency.

### ARTICLE III

#### GENERAL TERMS AND PROVISIONS OF BONDS

##### Section 301. Place and Medium of Payment, Form and Date.

(1) The Bonds of each Series shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts at the office of such Paying Agents as is specified in the applicable Supplemental Indenture. The interest on any Bonds may be paid by check, draft, wire transfer or other means as specified in the applicable Supplemental Indenture. The Commission may make provisions in the applicable Supplemental Indenture with respect to record dates for purposes of determining registered Holders for purposes of paying interest on any Bond.

(2) Unless otherwise provided in the applicable Supplemental Indentures the Bonds of each Series shall be issued in the form of fully registered bonds without coupons payable to a named person or registered assigns. All Bonds shall each be in the denomination of \$5,000 or any whole multiple thereof and shall be in the form provided in the applicable Supplemental Indenture. The Commission may provide in the applicable Supplemental Indenture for the issuance of the Bonds so authorized in book-entry form or in denominations less or more than \$5,000 upon the terms and conditions set forth therein together with such modifications to this Indenture as are necessary to the issuance of such Series of Bonds in such form.

(3) Bonds of each Series shall be dated as of the date or dates provided in the applicable Supplemental Indenture. Unless otherwise provided in the Supplemental Indenture, all Bonds of each Series shall bear interest from their date.

Section 302. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of the Indenture as may be necessary or desirable to comply with custom, the rules of any securities

exchange, commission or board or brokerage board, or otherwise, as may be determined by the Commission prior to the authentication and delivery thereof.

Section 303. Execution and Authentication. (1) The Bonds shall be executed in the name of the Commission by the manual or facsimile signature of an Authorized Officer of the Commission and countersigned by an Authorized Officer of the Commission and its seal (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been actually authenticated and delivered by the Authenticating Agent for such Bonds, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond of a Series may be signed and sealed on behalf of the Commission by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in the Commission, although at the date of the execution of the Bonds of such Series such persons may not have been so authorized or have held such office.

(2) The Bonds of each Series shall bear thereon a certificate of authentication, in substantially the following form, executed manually by the Authenticating Agent for such Series as specified in the applicable Supplemental Indenture. Only such Bonds as bear such certificate of authentication shall be entitled to any right or benefit under the Indenture and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee or such Authenticating Agent. Such certificate of the Authenticating Agent upon any Bond shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Indenture and the registered owner thereof is entitled to the benefits of the Indenture:

Certificate of Authentication

This bond is one of the Bonds described in the within-mentioned Indentures.

(Corporate name of Authenticating Agent)

By \_\_\_\_\_  
Authorized Signatory

Section 304. Interchangeability of Bonds. Bonds, upon surrender thereof at the office of the Trustee, or, when authorized by the applicable Supplemental Indenture, any Paying Agent, with a written instrument of transfer satisfactory to the Trustee or such Paying Agent, duly executed by the Holder or his duly authorized attorney, may, at the option of the Holder thereof, be exchanged for an equal aggregate Principal Amount of Bonds of the same Series and maturity of any other authorized denomination.

Section 305. Negotiability, Transfer, and Registry. (1) All the Bonds issued under the Indenture shall be negotiable, subject to the provisions for registration and transfer contained in the Indenture and in the Bonds. So long as any of the Bonds shall remain Outstanding, the Commission shall maintain and keep, at the Principal Office of the Trustee, who shall be registrar for the Bonds, books for the registration and transfer of each Series of Bonds; and upon presentation thereof for such purpose at said office, or at the Principal Office of such other Paying Agent, if any, as may be specified in the applicable Supplemental Indenture, the Commission shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as it or the Trustee or Paying Agent may prescribe, any Bond entitled to registration or transfer.

(2) Unless otherwise specified in the applicable Supplemental Indenture, each Bond shall be transferable only upon the books of the Commission in the manner provided in the form of such Bonds. As to any Bond, the Commission and each Fiduciary may deem and treat the person in whose name the Bond shall be registered upon the books of the Commission as the absolute owner of such Bond, whether such Bond shall be overdue or not for the purpose of receiving payment of, or on account of, the Principal Amount or Redemption Price of and interest on such Bond and for all other purposes, and neither the Commission nor any Fiduciary shall be affected by any notice to the contrary. The Commission, to the extent permitted by law, agrees to indemnify and save each Fiduciary harmless from any and all loss, expense, judgment of liability incurred by it, acting in good faith and without gross negligence hereunder, in so treating such registered owner.

(3) All Bonds surrendered in any exchange or transfer of Bonds shall forthwith be canceled by the Authenticating Agent. For every such exchange or transfer of Bonds, whether temporary or definitive, the Commission, the Trustee or the Authenticating Agent for the Bonds of such Series may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Commission shall not be obligated to make any such exchange or transfer of Bonds of any Series during the 10 days next preceding an interest or Principal Installment payment date of the Bonds of such Series or, in the case of any proposed redemption of Bonds of such Series, next preceding the date of the mailing of notice of such redemption, and shall not be obligated to make any exchange or transfer of Bonds called for redemption except as provided in Section 406.

Section 306. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Commission shall execute, and thereupon the Authenticating Agent for the Bonds of such Series shall authenticate and deliver, a new Bond of like Series, maturity and Principal Amount as the Bond so mutilated, destroyed, stolen or lost, in cancellation and substitution for such mutilated Bond, (upon surrender and cancellation of such mutilated Bond) or in lieu of and substitution for the Bond destroyed, stolen or lost, (upon filing with the Authenticating Agent evidence satisfactory to the Commission and the Authenticating Agent that such Bond has been destroyed, stolen or lost and proof of ownership thereof) and upon furnishing the Commission, the Trustee and the Authenticating Agent with indemnity satisfactory to them and complying with such other reasonable regulations as the



Commission, the Trustee or such Authenticating Agent may prescribe and paying such fees and expenses as the Commission, the Trustee or such Authenticating Agent may incur including the expenses, if any, of printing and delivering such new Bond. All Bonds so surrendered shall be canceled by the Authenticating Agent. The Authenticating Agent shall advise the applicable Paying Agents of the issuance of substitute Bonds.

Section 307. Preparation of Definitive Bonds, Interim Receipts and Temporary Bonds. Subject to the applicable Supplemental Indenture, until the definitive Bonds of any Series are prepared, the Commission may execute and, upon the written request of the Commission, the Authenticating Agent for such Series shall authenticate and deliver, in lieu of definitive Bonds, one or more interim receipts, or one or more temporary Bonds, substantially of the tenor of such definitive Bonds, (but with such registration provisions as the Commission may provide) and with such omissions, insertions and variations as may be appropriate for temporary Bonds. The Commission at its own expense shall prepare and execute and, upon the surrender at the Principal Office of the Authenticating Agent of such interim receipts and of such temporary Bonds, for exchange and cancellation, the Authenticating Agent shall authenticate and, without charge to the registered owner thereof, deliver in exchange therefor, definitive Bonds, of the same aggregate Principal Amount and Series and maturity as the interim receipt or temporary Bonds surrendered. Until so exchanged, the interim receipt and temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds authenticated and issued pursuant to the Indenture. All interim receipts and all temporary Bonds surrendered in exchange for a definitive Bond or Bonds shall be forthwith canceled by the Authenticating Agent.

Section 308. Cancellation of Bonds. All Bonds redeemed or paid by the Commission or any Fiduciary, or received by any Fiduciary on any transfer or exchange of Bonds, interim receipts or temporary Bonds, shall be canceled by it and delivered to the Trustee. Except as may be provided in the applicable Supplemental Indentures all Bonds purchased, redeemed or paid by any Fiduciary shall be canceled by it and delivered to the Trustee. No such Bonds shall be deemed Outstanding under the Indenture and no Bonds shall be issued in lieu thereof. All such canceled Bonds and all other Bonds canceled by any Fiduciary pursuant to the Indenture shall upon order of the Commission be destroyed by the Trustee and a certificate thereof delivered to the Commission.

## ARTICLE IV

### REDEMPTION OF BONDS

Section 401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to a Supplemental Indenture shall be redeemable, upon mailed notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms (in addition to and consistent with the terms contained in this Article IV) as may be specified in the applicable Supplemental Indenture.

Section 402. Redemption at the Election of the Commission. In the case of any redemption of Bonds otherwise than as provided in Section 403, the Commission shall give written notice to the Trustee of its election so to redeem, of the redemption date, of the Series and of the Principal Amount of the Bonds of each maturity of such Series to be redeemed (which Series, maturities and Principal Amount shall be determined by the Commission in its sole discretion, subject to any limitations with respect thereto contained herein and in any Supplemental Indenture), provided that in the case of any redemption of the Bonds in whole, the Commission shall also give written notice to the Rating Agencies (if any) then rating the Bonds. Such notice shall be given at least forty-five (45) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 405, the Trustee shall, on or before the redemption date, pay out of the moneys available therefor to the appropriate Paying Agent or Paying Agents an amount which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, all of the Bonds to be redeemed.

In the case of an optional redemption, the notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (2) that the Commission retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a "Conditional Redemption"), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described in Section 405.

Section 403. Redemption Otherwise Than at Commission's Election. Whenever by the terms of the Indenture and the applicable Supplemental Indenture Bonds of a Series are required to be redeemed otherwise than at the election of the Commission, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of the moneys available therefor the Redemption Price to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 506.

Section 404. Selection of Bonds to be Redeemed by Lot. Except as otherwise provided in a Supplemental Indenture with respect to a particular Series of Bonds, in the event of redemption of less than all the Outstanding Bonds of like Series and maturity, the Trustee shall select by lot, in such manner in its discretion as it shall deem appropriate and fair, the numbers of the Bonds to be redeemed and the portions of any thereof to be redeemed in part. Bonds of denominations of more than the applicable minimum denomination, if any, may be redeemed either as a whole or in part (which part must be in the amount of the applicable minimum denomination, if any, or an integral multiple thereof). For the purposes of this Section 404, Bonds, or portions thereof, which have theretofore been selected for redemption shall not be deemed Outstanding.

Section 405. Notice of Redemption. When the Trustee shall receive notice from the Commission of its election to redeem Bonds pursuant to Section 402, and when redemption of Bonds is required by the Indenture and the applicable Supplemental Indenture pursuant to

Section 403, the Trustee shall give notice, in the name of the Commission, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, the respective portions of the Principal Amount thereof to be redeemed. The notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the redemption price thereof, together with interest accrued to the redemption date, and that moneys therefor having been deposited with the Trustee, from and after such date, interest thereon shall cease to accrue and that the Bonds or portions thereof called for redemption shall cease to be entitled to any benefit under the applicable Supplemental Indenture except the right to receive payment of the redemption price. The Trustee shall mail a copy of such notice, postage prepaid, not less than 25 days before the redemption date (provided that, if the Commission notifies the Trustee in writing in connection with the redemption of Bonds issued to secure the Commission's repayment obligations with respect to one or more Agency Loan Agreements that notice of redemption must be mailed at a reasonable date, the Trustee shall mail such notice no later than the date specified by the Commission) to the Holders of any Bonds or portions of Bonds which are to be redeemed at their last address, if any, appearing upon the registration books for such Series of Bonds. Failure to so mail any such notice to any one Holder or any defect in such notice shall not affect the validity of the proceedings for the redemption of Bonds owned by any other Holder to whom the required notice has been given, nor shall the Trustee bear any liability therefor or in connection therewith.

Any Conditional Redemption may be rescinded in whole or in part at any time prior to the redemption date if the Commission delivers an Authorized Officer's certificate to the Trustee instructing the Trustee to rescind the redemption notice. The Trustee shall give prompt notice of such rescission to the affected Bondholders. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, in the case of a Conditional Redemption, the failure of the Commission to make funds available in part or in whole on or before the redemption date shall not constitute an Event of Default, and the Trustee shall give immediate notice to the securities depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain Outstanding.

Section 406. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 405, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest, if any, accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest, if any, accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Bond, the Commission shall execute and the Authenticating Agent for such Bonds shall authenticate and deliver, upon the surrender of such Bond, without charge to the Holder thereof, for the unredeemed balance of the Principal Amount of the Bond so surrendered, Bonds of like Series and maturity in any of the authorized denominations. If, on the

redemption date, sufficient moneys for the redemption of all the Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If said moneys shall not be available on the redemption date, such Bonds or portions thereof shall continue to accrue interest until paid at the same rate or yield, as applicable, and in the same manner as they would have borne had they not been called for redemption.

## ARTICLE V

### ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

Section 501. The Pledge Effected by the Indenture. There are pledged pursuant to the Indenture for the payment of the Principal Amount and Redemption Price of and interest on the State Obligations, the Bonds and, to the extent provided in any Qualified Swap Agreement for the payment of Qualified Swap Payments pursuant to Qualified Swap Agreements and all other amounts due from time to time under this Indenture and, subject to the provisions of Section 209, Subordinated Bonds, in each case, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, (i) subject to Section 207, the proceeds of sale of the Bonds, (ii) all Revenues, and (iii) all moneys, securities and Reserve Deposits in all funds and accounts established by or pursuant to the Indenture except the Operation and Maintenance Fund, the Rebate Fund, the Purchase Fund, if any, and the Unrestricted Fund. The Bonds and Subordinated Bonds shall be general obligations of the Commission and the full faith and credit of the Commission are hereby pledged for the payment of the Principal Amount and Redemption Price and interest on the Bonds and Subordinated Bonds. Neither the State nor any political subdivision thereof or city or town therein, other than the Commission, shall be obligated to pay the Bonds or Subordinated Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof or city or town therein is pledged to the payment of the Bonds or Subordinated Bonds.

Section 502. Establishment of Funds and Accounts. The following funds and accounts shall be established to be held by the Trustee, except the Operation and Maintenance Fund, the Insurance Reserve Fund, and the Unrestricted Fund, which shall be held by the Commission in the custody of one or more banks selected by the Commission (including but not limited to the Trustee or any Depository) and the Revenue Fund, which, prior to the occurrence of any Event of Default hereunder, shall be under the exclusive control of the Commission, and which shall be held by the Trustee upon the occurrence of any Event of Default hereunder:

- (i) Project Fund
  - (a) Project Accounts
  - (b) Operating Capital Accounts
  - (c) Grants and Project Reimbursements Account
  - (d) Cost of Issuance Accounts

- (ii) Revenue Fund (the "Narragansett Bay Water Quality Management District Commission Fund")
  - (a) Narragansett Bay Environmental Enforcement Fund
- (iii) Operation and Maintenance Fund
- (iv) Debt Service Fund
  - (a) State Obligations Reimbursement Account
  - (b) Debt Service Payment Account
  - (c) Debt Service Assistance Account
  - (d) Stabilization Account
- (v) Redemption Fund
- (vi) Debt Service Reserve Fund
- (vii) Operation and Maintenance Reserve Fund
- (viii) Insurance Reserve Fund
- (ix) Renewal and Replacement Reserve Fund
- (x) Rebate Fund
- (xi) Unrestricted Fund

There shall be established within the Debt Service Fund a separate account to be known as the Debt Service Assistance Account. The Commission may establish a special account to be held by the Trustee or its agent and to be called the Purchase Fund. Such Purchase Fund and the amounts therein shall only be applied to the purposes thereof as set forth in a Supplemental Indenture. The Commission may establish, in connection with the issuance of one or more Series of Bonds or Subordinated Bonds or pursuant to an order of the PUC, additional funds or accounts hereunder to be held for the benefit of one or more Series of Bonds or Subordinated Bonds and subaccounts within the funds and accounts established hereunder, as set forth in Supplemental Indentures. Any fund or account established pursuant to an order of the PUC may be closed with approval of the PUC.

Section 503. Project Fund. (1) The Supplemental Indenture for any Series of Bonds or Subordinated Bonds issued in whole or in part to pay the Cost of any Project may establish within the Project Fund one or more separate accounts (herein called "Project Accounts") for such Series of Bonds or Subordinated Bonds.

(2) There shall be deposited in each Project Account (i) the amount, if any, provided in the applicable Supplemental Indenture to be deposited therein to pay the Costs of the Projects financed by such Series, (ii) the proceeds of any Bond Anticipation Notes (or renewals thereof which were issued to pay the cost of any Project financed in whole or in part by such Bonds, (iii) the proceeds of insurance on any such Project received by the Commission during the period of construction pursuant to Section 606(2), and (iv) any other amounts (not required by the Indenture to be otherwise deposited), as determined by the Commission, including without limitation the proceeds of any loan made or bonds sold under any Agency Loan Agreement which the Commission elects to deposit in the Project Account pending disbursement thereof to the extent permitted by the Agency.

(3) Amounts in any Project Account shall be disbursed to or upon the order of the Commission to be applied to the Cost of the Projects financed in whole or in part by such Series upon receipt by the Trustee of one or more requisitions, in form annexed to and incorporated into the Supplemental Indenture, subject to any additional requirements imposed by the applicable Supplemental Indenture, signed by an Authorized Officer (who for purposes of this Section 503 shall be the Executive Director of the Commission or such other person as the Commission may authorize). Upon completion of any Project the Costs of which are payable from a Project Account, the Commission shall file with the Trustee a certificate of an Authorized Officer, approved by a Consulting Engineer, setting forth the final Cost of such Project and stating (i) that such Project has been completed to the satisfaction of the Commission and (ii) that all amounts withdrawn from the applicable Project Account with respect to such Project have been applied to the Cost of such Project. Such certificate shall further set forth the balance, if any, remaining in the applicable Project Account not required for the payment of Costs of such Project. Any such balance shall be applied by the Trustee, at the written direction of an Authorized Officer of the Commission and subject to the requirements of any Supplemental Indenture (i) to the Cost of other Projects payable from such Project Account, (ii) to the Cost of other Capital Improvements, including Projects, by deposit of such amount in another and separate Project Account or (iii) to the redemption of the Bonds or Subordinated Bonds of the Series for which such Project Account was established by deposit of such amount in the Redemption Fund; provided that, in the case of proceeds of any Series of Agency Bonds, such amount shall be applied as provided in Section 503(3)(iii) unless the Commission shall have received the written approval of the Agency of another use permitted under this subsection. Notwithstanding the foregoing, if at any time the amount on deposit and available therefor in the Debt Service Fund, including the Debt Service Assistance Account, Redemption Fund and Debt Service Reserve Fund Accounts is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from any unencumbered moneys on deposit in the Project Accounts (in such order of priority as the Commission by certificate of an Authorized Officer shall direct) to the Debt Service Fund the amount necessary to meet the deficiency.

(4) Upon the determination by the Commission that a Project undertaken or to be undertaken has been or should be delayed and that no further amounts or significantly reduced amounts are required therefor from the applicable Project Account, the Commission may, subject to the requirements of any Supplemental Indenture and to the delivery to the Trustee of an opinion of Bond Counsel to the effect that such transfer or application will not have an adverse effect on the excludability of interest on Bonds of the Series for purposes of computing the federal income taxes of the Holder thereof for which such Project Account was established, direct the Trustee in writing to transfer or apply amounts then on deposit in the applicable Project Account (i) to the payment of Costs of other Projects payable from such Project Account, (ii) to another and separate Project Account or Operating Capital Account, (iii) to the Renewal and Replacement Reserve Fund, or (iv) to the Redemption Fund for application to the redemption of Bonds or Subordinated Bonds of the Series for which such Project Account was established; provided that, in the case of proceeds of any Series of Agency Bonds, such amount shall be applied as provided in Section 503(4)(iv) unless the Commission shall have received the written approval of the Agency of another use permitted under this subsection.

(5) At any time that the Commission determines to undertake Capital Improvements to be financed by Revenues, the Commission may direct the Trustee in writing to establish within the Project Fund one or more separate accounts (herein called "Operating Capital Accounts") for such Capital Improvements. There shall be deposited in any such Operating Capital Account (i) any amounts withdrawn from the Revenue Fund for deposit therein pursuant to Section 504 and (ii) any amounts withdrawn from the Renewal and Replacement Reserve Fund for deposit therein pursuant to Section 512; (iii) any amounts transferred from the Stabilization Account pursuant to Section 506(6)(v) and (iv) any other amounts (not required by the Indenture to be otherwise deposited) as determined by the Commission and certified in writing to the Trustee. Amounts in a Operating Capital Account shall be disbursed to or upon the order of the Commission to be applied to the Cost of the Capital Improvements for which such account was established upon receipt by the Trustee of one or more requisitions, in form as attached or annexed to the Supplemental Indenture and incorporated therein by reference, signed by an Authorized Officer. Upon completion of such Capital Improvements, or upon a determination by the Commission that a Capital Improvement undertaken or to be undertaken has been or should be abandoned or delayed and that no further amounts or significantly reduced amounts are required therefore from the applicable Operating Capital Account, the Commission may direct the Trustee in writing to transfer amounts then on deposit in the applicable Operating Capital Account (i) to another and separate Operating Capital Account or (ii) to the Revenue Fund. Notwithstanding the foregoing, if at any time the amount on deposit and available therefore in the Debt Service Fund, including the Debt Service Assistance Account, Redemption Fund and Debt Service Reserve Fund, is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from any unencumbered moneys on deposit in the Operating Capital Accounts (in such order of priority as the Commission by certificate of an Authorized Officer shall direct) to the Debt Service Fund, the amount necessary to meet the deficiency.

(6) There shall be deposited in the Grants and Project Reimbursements Account (i) any amounts received as grants or reimbursement from the federal or State government or any agency or department of the federal or State governments, and (ii) any amounts withdrawn from the Renewal and Replacement Reserve Fund for deposit therein pursuant to Section 512 and (iii) any other amounts (not required by the Indenture to be otherwise deposited) as determined by the Commission and certified in writing to the Trustee. Amounts in the Grants and Project Reimbursements Account shall be disbursed to or upon the order of the Commission to be applied to the Cost of the Capital Improvements or Operating Expenses upon receipt by the Trustee of one or more requisitions, in form as attached or annexed to the Supplemental Indenture and incorporated therein by reference, signed by an Authorized Officer. The Commission may direct the Trustee in writing to transfer amounts on deposit in the Revenue Fund. Notwithstanding the foregoing, if at any time the amount on deposit and available therefore in the Debt Service Fund, including the Debt Service Assistance Account, Redemption Fund and Debt Service Reserve Fund, is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from any unencumbered moneys on deposit in the Grants and Project Reimbursements Account to the Debt Service Fund, the amount necessary to meet the deficiency.

(7) The Commission may establish in the Supplemental Indenture for any Series of Bonds or Subordinated Bonds a separate account (herein called "Cost of Issuance Account") within the Project Fund and shall deposit in the Cost of Issuance Account for such Series any proceeds of such Series as directed by such Supplemental Indenture and any other moneys not otherwise directed to be applied by the Indenture. Amounts in a Cost of Issuance Account shall be disbursed to or upon the written order of the Commission without requisition to be applied to Costs of Issuance of the applicable Series of Bonds or Subordinated Bonds. Any balance remaining in a Cost of Issuance Account upon payment of or provision for all Costs of Issuance to be paid therefrom shall be transferred by the Trustee, upon the written direction of an Authorized Officer of the Commission, to (i) one or more Project Accounts established for the applicable Series of Bonds or Subordinated Bonds or (ii) the Revenue Fund.

Section 504. Revenue Fund. (1) All Revenues, except (i) proceeds of insurance and condemnation to the extent provided in Section 606, (ii) proceeds of any sale or other disposition of any part of the System to the extent provided in Section 604, (iii) earnings on investment of the funds and accounts hereunder to the extent provided in Section 514 hereof and (iv) Debt Service Assistance deposited in the Debt Service Assistance Account as provided in Section 506, shall be collected by or for the account of the Commission and deposited by or on behalf of the Commission as promptly as practicable in the Revenue Fund. There shall also be deposited in the Revenue Fund any other moneys so directed by the Indenture and any other moneys of the Commission which the Commission may in its discretion determine to so apply unless required to be otherwise applied by the Indenture.

There shall be established in the Revenue Fund, a Narragansett Bay Environmental Enforcement Fund. There shall be deposited in the Narragansett Bay Environmental Enforcement Fund such sums as the Commission may, from time to time, deposit, or sums recovered by any administrative or civil enforcement action brought under the authority of the Act. All sums shall be expended for emergency response activities, enforcement activities, additional activities and the retirement of Bonds as provided in Rhode Island General Laws Section 46-25-38.1, as amended.

(2) On the third day prior to the last Business Day of each calendar month, the Commission (or during such times as the Trustee shall hold the Revenue Fund, the Trustee) shall apply amounts available in the Revenue Fund to the following purposes and in the following order:

- (i) To the Commission for deposit in the Operation and Maintenance Account of the Operation and Maintenance Fund, the amount specified by an Authorized Officer in accordance with Section 608; provided that if no amount has been specified by such Authorized Officer, the Operating Expenses for such month shall be deemed to be 125% of the Operating Expenses expended in the same calendar month in the preceding year or such lesser amount as an Authorized Officer shall certify in writing to the Trustee, but in no event less than 100% of such amount;



- (ii) To the Debt Service Fund, an amount, which together with other amounts on deposit in such Fund, will equal the Debt Service Fund Requirement as of the first day of the next ensuing month and;
- (iii) To the Rebate Fund, the amount which together with the amounts on deposit therein, will equal the Rebate Requirement as of such day;
- (iv) Subject to Section 508, to the Debt Service Reserve Fund, an amount which, together with the amounts on deposit therein, will equal the Debt Service Reserve Fund Requirement as of the first day of the next ensuing month;
- (v) To the Debt Service Assistance Account in the Debt Service Fund an amount specified by an Authorized Officer in a certificate delivered to the Trustee, as amended from time to time;
- (vi) To the Stabilization Account of the Debt Service Fund the amount, if any, designated by the Commission as further provided in Section 504(4);
- (vii) To make deposits and payments with respect to obligations secured by the Revenues junior and subordinate to the Bonds as required pursuant to this Indenture, including but not limited to, swap termination payments provided that following any swap termination payment the Commission shall have funds as necessary to make the next succeeding Debt Service Payment for each Series of Bonds, or any indenture or instrument pursuant to which such obligations are issued;
- (viii) Subject to Section 608, to the Operation and Maintenance Reserve Fund, an amount necessary for such Fund to equal the Operation and Maintenance Reserve Fund Requirement as of such day;
- (ix) To the Commission for deposit in the Insurance Reserve Fund, the amount, if any, determined by the Commission pursuant to Section 606(3) as necessary to maintain such Fund at the Insurance Reserve Fund Requirement;
- (x) Subject to Section 609, to the Renewal and Replacement Reserve Fund, an amount, which together with the amounts on deposit therein, will equal the Renewal and Replacement Reserve Fund Requirement as of such day;
- (xi) To the one or more Operating Capital Accounts of the Project Fund, such amount as requested by the Commission but only upon receipt by the Trustee of (a) a copy of the resolution of the Commission approving the Capital Improvements to be funded in whole or in part from such

Accounts, certified by an Authorizing Officer and (b) a certificate of an Authorized Officer stating that such deposit will not impair the ability of the Commission to either (A) meet the requirements of the Revenue Fund in the succeeding months of such Fiscal Year based on the then current Annual Budget prepared in accordance with Section 608 or (B) satisfy the requirements of Section 603 in the current or next succeeding Fiscal Year;

- (xii) To such other funds or accounts as shall be required by any Supplemental Indenture; and
- (xiii) To such other funds or accounts established by the Commission in compliance with applicable law or as required by any order of the PUC, including, but not limited to, transfers to an Operating Capital Account in accordance with Section 503(5) hereof.

(3) On the last Business Day of each Fiscal Year, the Commission shall, after making the deposits required by Sections 504(2), apply amounts available in the Revenue Fund to the Unrestricted Fund, the amount, if any, directed to be deposited therein in writing by an Authorized Officer.

Any balance remaining in the Revenue Fund following the above payments shall be retained in the Revenue Fund to be available for payments therefrom in the succeeding months, provided that if the Commission shall have issued Notes in accordance with Section 607(2)(i) or (iii), amounts in the Revenue Fund remaining after the above payments have been made may be used by the Commission to pay the principal of such notes at maturity or upon earlier redemption.

(4) Notwithstanding the foregoing, in the event that any order of the PUC requires that Revenues be held in a restricted account, the Commission shall request the Trustee to make such transfers as may be required to comply with any rate order. In the event that Revenues must be restricted in an account for debt service, such monies shall be deposited by the Trustee into the Stabilization Account of the Debt Service Fund.

(5) If, on the last Business Day of any month, the amounts deposited pursuant to Section 504(2)(ii) are, as of such date of calculation, less than the amounts required to be deposited therein, the Trustee shall promptly notify the Agency of any such deficit.

**Section 505. Operation and Maintenance Fund.** Amounts in the Operation and Maintenance Fund shall be applied by the Commission from time to time to pay Operating Expenses. Amounts in the Operation and Maintenance Fund which the Commission at any time determines in writing to be in excess of the requirements of such Fund shall be withdrawn and deposited in the Revenue Fund.

Section 506. Debt Service Fund. (1) The Trustee shall pay out of the Debt Service Fund, including the State Obligations Reimbursement Account, the Debt Service Payment Account and the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, to the respective Paying Agents (or in the case of State Obligations, the State's General Treasurer) (i) on each interest payment date the amount required for the interest and Principal Installments payable on such date and (ii) on each redemption date for any Bonds, other than a redemption date on account of Sinking Fund Payments, the amount required for the payment of interest on the Bonds then to be redeemed; provided that in each case the Commission may direct the Trustee in writing to make such payments to the Paying Agents on such date prior to the due date as the Commission determines. The Paying Agents shall apply such amounts to the payment of interest and Principal Installments on and after the due dates thereof. If on any interest payment date the amount accumulated in the Debt Service Fund, including the Debt Service Assistance Account, for either of the purposes specified above exceeds the amount required therefor, the Commission may direct the Trustee in writing to deposit such excess in the Redemption Fund or, in its discretion, in the Revenue Fund. The Trustee shall also pay out of the Debt Service Fund, including the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, accrued interest included in the purchase price of Bonds purchased for retirement under any provision of the Indenture.

(2) Amounts accumulated in the Debt Service Fund, including the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, with respect to any Sinking Fund Payment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Payment was established), if so directed in writing by the Commission, shall be applied by the Trustee prior to the 45th day preceding the due date of such Sinking Fund Payment, to (i) the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices not exceeding the applicable sinking fund Redemption Price plus interest on such Bonds to the first date on which such Bonds could be redeemed (or in the case of a Sinking Fund Payment due on the maturity date, the Principal Amount thereof plus interest to such date), such purchases to be made as directed in writing by the Commission or otherwise in such manner as the Trustee shall determine, or (ii) the redemption, pursuant to Section 402, of such Bonds then redeemable by their terms. The applicable Redemption Price or Principal Amount (in the case of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Fund until such Sinking Fund Payment date for the purpose of calculating the amount of such Fund. As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed (by giving notice as provided in Section 405) to call for redemption on such due date Bonds of the Series and maturity for which such Sinking Fund Payment was established (except in the case of Bonds maturing on a Sinking Fund Payment date) in such amount as shall be necessary to complete the retirement of the Principal Amount of the Bonds of such Series and maturity as specified for such Sinking Fund Payment in the applicable Supplemental Indenture, and whether or not the balance in the Debt Service Fund is sufficient to pay all such Bonds. The Trustee shall pay out of the Debt Service Fund, including the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, to the

appropriate Paying Agents, on or before such redemption date or maturity date, the amount required for the redemption of the Bonds so called for redemption or for the payment of such Bonds then maturing, and such amount shall be applied by such Paying Agents to such redemption or payment.

(3) In satisfaction, in whole or in part, of any amount required to be paid into the Debt Service Fund pursuant to Section 504(2)(iv) which is attributable to a Sinking Fund Payment, there may be delivered on behalf of the Commission to the Trustee, Bonds of the Series and maturity entitled to such payment. All Bonds so delivered to the Trustee in satisfaction of a Sinking Fund Payment shall reduce the amount thereof by the amount of the aggregate of the sinking fund Redemption Prices of such Bonds.

(4) Notwithstanding anything to the contrary contained in this Section, the Trustee shall not purchase or accept Bonds in lieu of any Sinking Fund Payment during the period of 45 days prior to the due date of any Sinking Fund Payment.

(5) The Commission may establish in any Supplemental Indenture a separate account (herein called "Capitalized Interest Account") within the Debt Service Fund and may deposit in the Capitalized Interest Account any proceeds of Bonds as directed by such Supplemental Indenture and any other moneys not otherwise directed to be applied by the Indenture. Amounts in the Capitalized Interest Account shall be applied to the payment of interest on the Bonds and as otherwise provided in the applicable Supplemental Indenture.

(6) Amounts in the Stabilization Account shall be invested in Permitted Investments at a yield not in excess of the yield permitted by nationally recognized bond counsel or in Permitted Investments described in paragraph (iv) of the definition thereof the interest on which is excluded from income for purposes of federal income taxation and not subject to the alternative minimum tax.

The Trustee shall apply monies on deposit in the Stabilization Account as follows:

- (i) to any shortfall in the Debt Service Account of the Debt Service Fund after deposit of monies from the Revenue Fund but before transfers from the Debt Service Reserve Fund, on the Business Day prior to the date on which any payment of principal or interest on any Bonds is due and payable;
- (ii) to any shortfall in the Debt Service Reserve Fund;
- (iii) to fund capitalized interest and to fund the Debt Service Reserve Fund Requirement on any future Series of Bonds, as requested by the Commission;

- (iv) to the Redemption Fund, as requested by the Commission; and
- (v) to such other purposes as the Commission may direct, not inconsistent with any order of the PUC.

(7) The Commission shall deposit Debt Service Assistance to the Debt Service Assistance Account in the Debt Service Fund to be applied by the Trustee in accordance with a certificate of an Authorized Officer, as amended from time to time. Notwithstanding anything herein to the contrary, amounts received by the Commission on account of Debt Service Assistance shall be spent in accordance with any appropriation or agreement governing such assistance. To the extent that the Commission has transferred monies to the Debt Service Assistance Account from the Revenue Fund in anticipation of the receipt of Debt Service Assistance pursuant to Section 504(2)(v), once the Debt Service Assistance is received, an amount equal to such Debt Service Assistance received, but not in excess of the amount which has been so transferred to the Debt Service Assistance Account pursuant to Section 504(2)(v), shall be redeposited to the Revenue Fund.

(8) The Commission also may, from time to time, deposit general funds of the Commission to the Debt Service Assistance Account in the Debt Service Fund in anticipation of Debt Service Assistance to be received to be applied by the Trustee in accordance with a certificate of an Authorized Officer, as amended from time to time; provided that such certificate also shall state that the amount of such deposit, together with other amounts deposited therein in anticipation of Debt Service Assistance not yet received, does not exceed the amount reasonably expected to be received as Debt Service Assistance. Once the anticipated Debt Service Assistance is received, an amount equal to such Debt Service Assistance received, but not in excess of the amount which has been transferred to the Debt Service Assistance Account pursuant to this Section 506(7), shall be transferred back to the Commission.

Section 507. Redemption Fund. (1) The Commission may deposit in the Redemption Fund any moneys, including Revenues, not otherwise required by the Indenture to be deposited or applied elsewhere.

(2) If at any time the amount on deposit and available therefor in the Debt Service Fund, including the Debt Service Assistance Account, is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Redemption Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Bonds for which a notice of redemption shall have already been given by the Trustee). Subject to the foregoing, if at any time the amount on deposit and available therefor in the Operation and Maintenance Fund is insufficient to pay Operating Expenses when due, the Trustee shall withdraw from the Redemption Fund and deposit in the Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Bonds for which a notice of redemption shall already have been given by the Trustee). Subject to the foregoing, amounts in the Redemption

Fund may be applied by the Commission to the redemption of Bonds in accordance with Section 402 and the applicable Supplemental Indenture or, in lieu thereof, to the purchase of Bonds at prices not exceeding the applicable Redemption Prices (plus accrued interest) had such Bonds been redeemed (or, if not then subject to redemption, at the applicable Redemption Prices when next subject to redemption), such purchases to be made by the Trustee at such times and in such manner as directed in writing by the Commission.

Section 508. Debt Service Reserve Fund. (1) Except as provided in any Supplemental Indenture amounts in each Account in the Debt Service Reserve Fund shall be used to pay debt service on the related Series of Bonds on the date such debt service is due when insufficient moneys for that purpose are available in the Debt Service Fund; provided, however that all amounts in an Account in the Debt Service Reserve Fund shall be used, together with other amounts available for such purpose hereunder, to provide for payment of the related Series of Bonds when the aggregate of such amounts is sufficient for such purpose. Amounts in each Account of the Debt Service Reserve Fund shall be pledged only to Holders of Bonds of the related Series; provided, however, if so provided in a Supplemental Indenture, upon the issuance of a Series of Refunding Bonds to advance refund a portion of a Series of Outstanding Bonds, amounts in the related Account of the Debt Service Reserve Fund securing the Outstanding Bonds may be pledged to the unrefunded Series of Outstanding Bonds and the Holders of the Series of Refunding Bonds on a pro rata basis. If at any time the amounts on deposit and available therefor in the Debt Service Fund, including the Debt Service Assistance Account, after transfers from the Redemption Fund are insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Debt Service Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet any such deficiency. Amounts so withdrawn shall be derived, first, from cash or Permitted Investments on deposit therein and, second, from draws or demands on Reserve Deposits held as a part thereof upon the terms and conditions set forth in the agreements applicable to any such Reserve Deposits or as otherwise set forth in the Supplemental Indenture providing for such Reserve Deposits.

(2) The Commission may from time to time provide Reserve Deposits to satisfy the Debt Service Reserve Fund Requirement. If on the last business day of any month or on any day when a new Reserve Deposit is deposited in the Debt Service Reserve Fund, the amount on deposit in the Debt Service Reserve Fund is in excess of the Debt Service Reserve Fund Requirement (calculated as of the first day of the next succeeding month) the Trustee, shall promptly notify the Commission and, acting in accordance with a certificate of an Authorized Officer, to the extent of such excess, either (i) transfer cash and Permitted Investments to any Fund or Account established hereunder or (ii) consent to the reduction of the stated amount of any Reserve Deposit or (iii) do any combination of the foregoing.

(3) The Trustee shall determine the amount of cash and Permitted Investments on deposit in the Debt Service Reserve Fund on the last day of the Fiscal Year of the Commission. Whenever the Trustee shall determine that the cash and Permitted Investments on deposit in the

Debt Service Reserve Fund together with all other funds available for the purpose is equal to or in excess of the Redemption Price of all Bonds Outstanding, the Trustee, at the written direction of the Commission, shall transfer the balance of such cash and Permitted Investments from the Debt Service Reserve Fund to the Redemption Fund in connection with the redemption of all Bonds Outstanding.

(4) Notwithstanding anything to the contrary in this Indenture or any Supplemental Indenture, if a cash withdrawal is made from the Debt Service Reserve Fund pursuant to Section 508(1) or in the event that the Commission shall not be in compliance with the Debt Service Reserve Fund Requirement, monthly deposits shall be made to the Debt Service Reserve Fund pursuant to Section 504(2)(iv) on the last Business Day of the calendar month in which the withdrawal is made and on the last Business Day of each of the five succeeding calendar months in an amount equal to one-sixth (1/6) of the amount of such withdrawal. In the event that the Debt Service Reserve Fund Requirement is satisfied in whole or in part by a Reserve Deposit and there shall have been a draw on such Reserve Deposit, the Commission shall (i) restore the Reserve Deposit within six months of such draw or (ii) deposit cash in the Debt Service Reserve Fund to replenish the Debt Service Reserve Requirement in accordance with the schedule set forth in the prior sentence. Unless and until the requirements of the preceding two sentences are not met, the difference between the amount of such withdrawals or draws and the amount redeposited or restored to the Debt Service Reserve Fund on account of such withdrawal or draws pursuant to the preceding sentences shall be deemed to be on deposit in the Debt Service Reserve Fund for purposes of calculating compliance with the Debt Service Reserve Fund Requirement. Monthly deposits pursuant to 504(2)(iv) shall be used first to restore the Reserve Deposit, thereby reinstating the Reserve Deposit, and second to replenish the cash in the Debt Service Reserve Fund.

Section 509. Rebate Fund. If any Series of Bonds or Subordinated Bonds is issued, or becomes, subject to the rebate requirement of Section 148(f) of the Internal Revenue Code of 1986, as amended, the Commission may, by Supplemental Indenture, activate the Rebate Fund established hereunder, and the Trustee shall then establish a separate Rebate Account within the Rebate Fund for such Series of Bonds or Subordinated Bonds. Funds on deposit in any Rebate Account shall be applied as set forth in the applicable Supplemental Indenture.

Section 510. Reserved.

Section 511. Operation and Maintenance Reserve Fund.

(a) If at any time the amount on deposit and available therefor in the Debt Service Fund, Redemption Fund, Debt Service Reserve Fund, Renewal and Replacement Reserve Fund and Operating Capital Accounts is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from the Operation and Maintenance Reserve Fund to the Debt Service Fund the amount necessary to meet the deficiency.

(b) Subject to subsection (a) of this Section, if at any time the amount on deposit in the Operation and Maintenance Fund is insufficient to pay all Operation and Maintenance Expenses then payable, the Trustee, upon receipt of a certificate of an Authorized Officer to that effect, shall withdraw from the Operation and Maintenance Reserve Fund and pay to the Commission for deposit in the Operation and Maintenance Fund the amount specified in such certificate.

Section 512. Renewal and Replacement Reserve Fund.

(a) If at any time the amounts on deposit and available therefor in the Debt Service Fund, Redemption Fund and Debt Service Reserve Fund are insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Renewal and Replacement Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency.

(b) Subject to subsection (a) of this Section 512, the Commission may apply amounts in the Renewal and Replacement Reserve Fund solely to the Cost of any Capital Improvements moneys for the payment of which are not available in any Project Account or any Operating Capital Account. The Trustee shall withdraw from such Fund and deposit in a Operating Capital Account established pursuant to Section 503(5), any amount requested by the Commission but only upon receipt of a certificate of an Authorized Officer (i) specifying the Capital Improvement to which such amount will be applied, its estimated Cost and estimated completion date and (ii) certifying (a) that such Capital Improvement is reasonably required for the continued operation of the System or the maintenance of Revenues, (b) that all or a portion of the Cost of such Capital Improvements was not financed in whole or in part from a Operating Capital Account theretofore established or from any Project Account, and (c) that only the Cost of such Capital Improvement that is in excess of the amounts available therefor in any Project Account or Operating Capital Account is being or has previously been requisitioned from the Renewal and Replacement Reserve Fund. Amounts deposited in any Operating Capital Account pursuant to this Section shall be applied by the Commission to the Cost of the Capital Improvement for which received. Upon completion of such Capital Improvement, any amount so deposited and not necessary to pay the Cost of such Capital Improvement shall be redeposited in the Renewal and Replacement Reserve Fund. Notwithstanding anything herein or in Section 503 to the contrary, if the Commission shall direct the Trustee to transfer from the Renewal and Replacement Reserve Fund to any Operating Capital Account amounts to be applied to the Cost of a Capital Improvement to be funded from the proceeds of Bonds or Notes not then issued, upon issuance of such Bonds or Notes an amount of proceeds thereof or other moneys of the Commission equal to the amount so transferred shall, unless otherwise provided in the applicable Supplemental Indenture, be redeposited in the Renewal and Replacement Reserve Fund.

(c) If at any time, the amounts on deposit in the Renewal and Replacement Reserve Fund is in excess of the Renewal and Replacement Reserve Fund Requirement, the Trustee, at



the direction of the Commission expressed in a certificate of an Authorized Officer, shall withdraw such excess and deposit it in the Revenue Fund.

Section 513. Unrestricted Fund. The Commission may make transfers to the Unrestricted Fund in accordance with Section 504(3), provided that (1) all funds and accounts established under this Indenture are funded in the amounts required as of the transfer date pursuant to the applicable provision of this Indenture, (2) the Commission is in compliance with the terms of Section 603 herein for the Fiscal Year then ended and (3) upon certification of an Authorized Officer of the Commission, such deposit will not adversely affect the ability of the Commission to comply with the terms of Section 603 hereof in the next ensuing Fiscal Year. Amounts on deposit in the Unrestricted Fund may be used for any lawful purpose of the Commission.

Section 514. Investments. (1) Except as otherwise provided in Section 1101 or subsection 2 of this Section, money held for the credit of any fund or account held by the Trustee under the Indenture shall, to the fullest extent practicable, be invested, either alone or jointly with moneys in any other fund or account, by the Trustee at the written direction of an Authorized Officer of the Commission in Permitted investments which shall mature or be redeemable at the option of the holder thereof, on such dates and in such amounts as may be necessary to provide moneys to meet the payments from such funds and accounts; provided that if moneys in two or more funds or accounts are commingled for purposes of investments, the Trustee shall maintain appropriate records of the Permitted Investments or portions thereof held for the credit of such fund or account. Except with respect to Reserve Deposits in the Debt Service Reserve Fund, and except as provided in any Supplemental Indenture, at least one-half of the moneys in the Debt Service Reserve Fund shall be invested in Permitted Investments (a) maturing no later than ten (10) years from the date such Permitted Investment is acquired by the Trustee or (b) subject to liquidation at par or at the amortized cost thereof, as applicable, at any time application of the moneys so invested is required under the terms of the Indenture. Unless otherwise directed by any Supplemental Indenture, Permitted Investments purchased as an investment of moneys in any fund or account shall be deemed at all times to be a part of such fund or account and all income thereon shall accrue to and be deposited in such fund or account and all losses from investment shall be charged against such fund or account. Notwithstanding any provision herein or in a Supplemental Indenture to the contrary, the Trustee shall not be liable for any losses from investment in accordance with this Section 514. The Commission may by Supplemental Indenture direct that all or any portion of income earned on investment of moneys allocable to any Series of Bonds in any fund or account established hereunder shall be transferred to the Rebate Account established for such Series of Bonds in the Rebate Fund created under Section 509.

(2) In computing the amount in any fund or account hereunder for any purpose, Permitted Investments shall be valued at amortized cost. As used herein the term "amortized cost", when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the date of such purchase and by multiplying the amount thus calculated by the number of days having passed since such purchase; and (i) in the case of an obligation purchased at a premium by deducting the product thus obtained from the purchase price, and (ii) in the case of an obligation purchased at a discount by adding the product thus obtained to the purchase price. Unless otherwise provided in the Indenture, Permitted Investments in any fund or account hereunder shall be valued at least once in each Fiscal Year on the last day thereof. Notwithstanding the foregoing, Permitted Investments in the Debt Service Reserve Fund shall be valued at amortized cost for all purposes of the Indenture unless and until a withdrawal from such Fund shall be required in accordance with Section 508(1) in which event such investments shall thereafter be valued at amortized cost or market, whichever is lower, until the balance in such Fund, on the basis of such valuation, shall equal the Debt Service Reserve Fund Requirement.

Section 515. Holding of Special Deposits. Except as otherwise provided in any Supplemental Indenture, moneys held by or for the account of the Commission in connection with the System which are required to be applied under the terms of an agreement with respect to the acquisition, construction or alteration of a facility which is the subject of such agreement (including, any such moneys received by the Commission for such purpose under any grant or loan agreement with the United States of America or the State or any agency, political subdivision or instrumentality of either) or which are subject to refund by the Commission or held for the account of others or subject to refund to others, including, without limitation, any amounts which, under any agreement by the Commission providing for adequate separation of such amounts from Revenues, are collected by the Commission on behalf of others for services rendered or commodities provided to customers of the System, any amounts deducted by the Commission from wage and salary payments to the employees of the System, any amounts contributed by the Commission to any pension or retirement fund or system which amounts are held in trust for the benefit of the employees of the Commission and any amounts held as deposits, including customer service deposits, guaranteed revenue contract deposits, unexpended developer's deposits under construction loan contracts, minimum revenue deposits and unexpended jobbing deposits, together with any investments of such moneys and interest and profits thereon to the extent such interest and profits are also held for the account of others or subject to refund to others, may be held by the Commission outside of the various funds and accounts established by the Indenture and, notwithstanding anything herein to the contrary, shall not be subject to the pledge created by the Indenture or be considered Revenues hereunder while so held.

## ARTICLE VI

## PARTICULAR COVENANTS OF THE COMMISSION

The Commission covenants and agrees as follows:

Section 601. Powers as to Bonds and Pledge. The Commission is duly authorized under the Act and all applicable laws to create and issue the Bonds and to adopt the Indenture and to pledge the Revenues and other moneys, securities, Reserve Deposits and funds purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture. The Revenues and other moneys, securities, Reserve Deposits and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto prior to, or of equal rank with, the pledge created by the Indenture except to the extent expressly permitted hereby. The Commission shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenue and other moneys, securities, Reserve Deposits and funds pledged under the Indenture and all the rights of the Bondholders under the Indenture against all claims and demands of all persons whomsoever.

Section 602. [RESERVED]

Section 603. Covenant as to Rates and Charges. (1) To the extent not otherwise provided by a Supplemental Indenture, so long as any Bonds are Outstanding, the Commission shall take all actions within its power to establish and maintain Rates and Charges adequate at all times, with other available funds, to provide Revenues and other moneys, including Reserved Revenues from the Stabilization Account of the Debt Service Fund at least sufficient to pay or provide for, as the same become due or are payable (i) all Operating Expenses, (ii) all payments of Principal Installments and Redemption Price of and interest on the Bonds and all other bonds, notes or other evidences of indebtedness of or assumed by the Commission which are payable from Revenues of the System, (iii) all amounts, if any, payable to the Operation and Maintenance Reserve Fund, Debt Service Reserve Fund, the Renewal and Replacement Reserve Fund and, if any, the Insurance Reserve Fund, (iv) all repairs, replacements, and renewals of the System deemed necessary by the Commission which are payable from Revenues of the System and (v) all other amounts which the Commission may by law or contract be obligated to pay from Revenues of the System including amounts payable under Qualified Swap Agreements. Provided the Commission complies with Section 504(4) and has complied or is diligently proceeding to comply with the requirements of subsection (3) and (4) of this Section 603, the Trustee shall take no action pursuant to Section 701 or Section 703 on account of any failure by the Commission to comply with the requirements of this subsection; provided that the setting of the Rates and Charges shall, to the extent required by law, be subject to the approval of the PUC.

(2) Without limiting the generality of the foregoing, the Commission shall take all actions within its power to establish and maintain Rates and Charges at levels sufficient so that total Net Revenues in each Fiscal Year during which Bonds are Outstanding, shall equal at least

one hundred twenty-five percent (125%) of the Debt Service Requirement during such Fiscal Year with respect to all Bonds Outstanding, other than Agency Bonds, as of the first day of such Fiscal Year and one hundred thirty-five percent (135%) of the Required Debt Service Fund Deposits for Agency Bonds (based on debt service net of any interest rate subsidy) for such Fiscal Year. Failure by the Commission to comply with the requirements of this subsection (2) shall not be considered an Event of Default under the Indenture so long as the Commission has complied or is diligently proceeding to comply with the requirements of subsection (3) and (4) of this Section 603.

(3) On or before the day which is six months prior to the last Business Day of each Fiscal Year the Commission shall review the adequacy of its Rates and Charges to satisfy the requirements of this Section for the next succeeding Fiscal Year. If such review indicates that the Rates and Charges are, or are likely to be, insufficient to meet the requirements of this Section for the next succeeding Fiscal Year, or if it otherwise appears at any time during such Fiscal Year that Rates and Charges are or are likely to be insufficient to meet such requirements, the Commission shall promptly take such steps as are permitted by law and as are necessary to cure or avoid the deficiency, including but not limited to, making an emergency request to the Public Utilities Commission to raise its Rates and Charges.

(4) Within one hundred and eighty days of the close of each Fiscal Year while Bonds are Outstanding, the Commission shall deliver to the Trustee a certificate of an Authorized Officer (which may be based on unaudited financial statements) stating, if such was the case, that the Commission satisfied the requirements of subsections (1) and (2) of this Section 603 in such Fiscal Year or, if such was not the case, specifying in reasonable detail the corrective steps taken by the Commission so that it will comply with such requirements in the then current Fiscal Year. If such certificate is based on unaudited financial statements, then within 270 days of the close of each Fiscal Year while the Bonds are Outstanding, the Commission shall deliver to the Trustee an additional certificate based on audited financial statements. Any certificate based on audited financial statements shall be accompanied by a certificate of the independent public accountant or firm of accountants regularly auditing the books of the Commission in accordance with Section 610 setting forth the Net Revenues for the preceding Fiscal Year.

Section 604. Sale, Lease or Encumbrance of System. (1) Except as provided in this Section and Section 607(3), no part of the System shall be sold, leased (with the Commission as lessor) or otherwise disposed of or encumbered.

(2) To the extent permitted by law, the Commission may sell or exchange or otherwise dispose of at any time or from time to time any property or facilities constituting part of the System which either (i) are worn out or obsolete or (ii) in the written opinion of the Commission are no longer useful in the operation of the System and, if the market value of such property or facilities as determined by the Commission is in excess of \$500,000, the Commission delivers to the Trustee a certificate of an Authorized Officer stating, in the opinion of the signer, that the sale, exchange or other disposition of such property or facilities will not impair the

ability of the Commission to satisfy the requirements of Section 603 in the then current or any future Fiscal Year. To the extent permitted by law, any proceeds of such sale, exchange or other disposition not used to replace the property so sold, exchanged or disposed of shall be deposited in the Revenue Fund or upon direction of an Authorized Officer, to an account in the Project Fund, provided, however, that the Commission and the Trustee shall have received an opinion of nationally recognized bond counsel to the effect that such disposition will not have an adverse effect on the exemption of interest on any Bonds or Notes issued by the Commission which are issued as federally tax-exempt Bonds.

(3) To the extent permitted by law, the Commission may sell, mortgage, grant security interests in, or otherwise encumber any real or personal property included in the System, or may lease as lessee any real or personal property to be used in the operation of the System; provided that the Commission shall deliver to the Trustee a written report (A) stating that such action shall not impede the Commission's ability to comply with all the covenants set forth in Article VI of this Indenture for so long as any Bonds or Subordinated Bonds shall remain Outstanding and (B) including a certificate of a Consulting Engineer (a) setting forth the estimated annual Net Revenues for each of the five full Fiscal Years following the action (including the Fiscal Year in which such action is taken), after giving effect to any increases or decreases in Rates and Charges projected to be in effect for such period and to any additional Revenues projected to be available during such period, and (b) showing for each of such Fiscal Years that the estimated annual Net Revenues for such Fiscal Year will be at least equal to one hundred twenty-five percent (125%) of the Debt Service Requirement for such Fiscal Years (provided that the Consulting Engineer's certificate shall not project any increase in Rates and Charges during the first full Fiscal Year of the projection period which has not been adopted by the Commission for such Fiscal Year on or before the date of such certificate). The proceeds of sale, if any, of any such property mortgaged or otherwise encumbered, after satisfying the mortgage, security interest or other encumbrance secured by the same, to the extent permitted by law, shall be deposited in the Revenue Fund or upon direction of an Authorized Officer, to an account in the Project Fund, provided, however, that the Commission and the Trustee shall have received an opinion of nationally recognized bond counsel to the effect that such disposition will not have an adverse effect on the exemption of interest on any Bonds or Notes issued by the Commission which are issued as federally tax-exempt Bonds.

(4) The Commission may lease as lessor or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the System if such lease, contract, license, easement or right does not, in its written opinion, impede the operation by the Commission of the System. Except as provided in Section 607(3), any payments to the Commission under or in connection with any such lease, contract, license, easement or right (except any such payments specifically excluded from the definition of Revenues) shall constitute Revenues and be deemed Rates and Charges.

(5) Nothing in this Indenture shall prevent the Commission from conveying and assigning to a municipal authority created pursuant to any applicable statute or to another entity (the "Authority") all or substantially all of its right, title and interest in the System and thereupon becoming released from all of its obligations hereunder, under any Supplemental Indenture and under the Bonds if the Authority (A) assumes in writing the Commission's obligations under the Indenture or (B) otherwise assumes in writing the Commission's obligations to pay the principal, redemption premium, if any, and interest on all Bonds issued pursuant to this Indenture and then outstanding according to the terms thereof and the instrument of assumption provides the Bondholders or the Trustee or entity serving in a similar capacity and acting on behalf of the Bondholders with substantially all of the rights and remedies provided in this Indenture; provided, however, that before the Commission may consummate such a conveyance and assignment and obtain a release of its obligations hereunder, under any Supplemental Indenture and under the Bonds, the following conditions shall have been satisfied:

(a) the Commission and the Trustee shall have received a Counsel's Opinion substantially to the effect that the conveyance to the Authority of all or substantially all of the Commission's right, title and interest in the System, the assignment to the Authority of the obligations of the Commission under this Indenture, any Supplemental Indenture and the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds, and the release of the Commission from all of its obligations hereunder, under any Supplemental Indenture and under the Bonds, have been duly authorized by the Commission, do not violate any applicable law, ordinance, resolution or regulation of the Commission or any applicable court decision and do not adversely impact the System's eligibility for federal or state grants or other financial assistance or the qualification of any Agency Loan Agreement under the Clean Water Act;

(b) the Commission and the Trustee shall have received a Counsel's Opinion substantially to the effect that (i) the acquisition by the Authority of all or substantially all of the Commission's right, title and interest in the System and the assumption by the Authority of the Commission's obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds have been duly authorized by the Authority and do not violate any law, ordinance, resolution or regulation applicable to the Authority or any applicable court decision; (ii) the instrument under which the Authority assumes the obligations of the Commission hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms except as enforcement may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors' rights; (iii) the security interest granted by the Authority pursuant to subparagraph (d) creates a valid and effective first priority lien and security interest in the revenues to be generated by the System; and (iv) the rates and charges established by the Authority and referred to below in subparagraph (e) have been duly authorized and enacted in accordance with applicable law;

(c) the Commission and the Trustee shall have received a Counsel's Opinion substantially to the effect that the conveyance of all or substantially all of the Commission's right, title and interest in the System to the Authority; the release of the Commission from its obligations hereunder, under any Supplemental Indenture and under the Bonds; and the assumption by the Authority of the Commission's obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds will not have an adverse effect on the exemption of interest on any Series of Bonds issued as federally tax-exempt Bonds;

(d) the Authority shall, concurrently with the conveyance, assignment, assumption and release described above, grant to the Trustee or entity serving in a similar capacity and acting on behalf of Bondholders a security interest in the revenues to be generated by the System following the conveyance, assignment, assumption and release equal to the security interest granted in Revenues hereby;

(e) the Commission and the Trustee shall have received a certificate of a Consulting Engineer indicating that the Authority could issue at least one dollar (\$1) of Additional Bonds in compliance with the requirements of Section 205(2)(iv) following the conveyance, assignment, assumption and release described above or, in lieu of compliance with Section 205(2)(iv), that the coverage ratio calculated under Section 205(2)(iv) would not be worse immediately after such conveyance, assignment, assumption and release than it was immediately preceding such conveyance, assignment, assumption and release, in each case treating any other debt of the Commission to be secured by the Revenues on a parity with the Bonds as Bonds for purposes of such calculation;

(f) the Commission shall have provided (1) evidence to the Trustee that the details of such conveyance of all or substantially all of the Commission's right, title and interest in the System to the Authority; the release of the Commission from its obligations hereunder, under any Supplemental Indenture and under the Bonds; and the assumption by the Authority of the Commission's obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds have been provided in writing to each Rating Agency then assigning a rating on Outstanding Bonds and that each such Rating Agency has either (a) confirmed in writing that such conveyance will not, in and of itself, adversely affect such ratings, if any, or (b) issued a rating on a Series of Bonds to be issued by the Authority which is not lower than the rating assigned by such Rating Agency to any Series of Outstanding Bonds (which rating in each case is not based on Additional Security, if any, provided for such Series of Outstanding Bonds or Authority Bonds, as applicable) or (2) any other evidence satisfactory to the Trustee that such conveyance will not, in and of itself, adversely affect the then current ratings, if any, assigned to any Outstanding Bonds by any Rating Agency;

(g) the Commission and the Trustee shall have received a Counsel's Opinion substantially to the effect that the conveyance of all or substantially all of the Commission's right, title and interest in the System to the Authority; the release of the Commission from its obligations hereunder, under any Supplemental Indenture and under the Bonds; and the assumption by the Authority of the Commission's obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds will not have an adverse effect on the exemption of interest on any bonds issued by the Agency which are secured in whole or in part by Agency Bonds and are issued as federally tax-exempt bonds; and

(h) the Bond Insurer shall have consented in writing.

In connection with the conveyance to the Authority of all or substantially all of the Commission's right, title and interest in the System, the Commission shall convey and assign to the Authority all amounts on deposit in the funds and accounts established hereunder.

Anything in this Indenture to the contrary notwithstanding, upon a conveyance of all or substantially all of the assets of the System to the Authority pursuant to this subsection, the provisions of this Indenture shall no longer be enforceable against the Commission.

Section 605. Operation, Maintenance and Reconstruction. The Commission shall operate, or cause to be operated, the System properly and in a sound, efficient and economical manner and shall maintain, preserve, and keep the same or cause the same to be maintained, preserved, and kept in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that the operation of the System may be properly and advantageously conducted, and, if any useful part of the System is damaged or destroyed or taken through the exercise of eminent domain, the Commission shall, as expeditiously as practicable, commence and diligently prosecute the replacement or reconstruction of such damaged or destroyed part so as to restore the same to use and the replacement of such part so taken; provided, however, that nothing in the Indenture shall require the Commission to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the System if there shall have been filed with the Trustee a certificate of an Authorized Officer; which certificate may be conclusively relied upon by the Trustee, stating that, in the opinion of the signer, (i) abandonment of operation of such part is economically justified and is not prejudicial to the interests of the Holders of the Bonds, and (ii) failure to operate, maintain, preserve, repair, replace, renew or reconstruct such part will not impair the ability of the Commission to satisfy the requirements of Section 603 in the current or any future Fiscal Year.

Section 606. Insurance and Condemnation. (1) The Commission shall at all times keep all property which is a part of the System and which is of an insurable nature and of the character usually insured by operating systems similar to the System insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts as are customary or shall self-insure against such risks as provided in subsection (3). The Commission will also at



all times maintain insurance against loss or damage from such hazards and risks to the persons and property of others as are usually insured against by those operating systems similar to the Commission, or shall self-insure against such risks as provided in subsection (3). In determining the amounts and types of insurance to be maintained under this Section, the Commission may rely upon the advice of a Consulting Engineer or an insurance consultant of recognized standing selected by the Commission. Any policies of insurance shall be carried with insurers of good standing authorized to do business in the State and shall provide that the proceeds of such insurance shall be payable to the Commission.

(2) All proceeds of insurance, if any, insuring the properties and facilities of the System against loss or damage shall be applied to the restoration, replacement or reconstruction of the property or facility lost or damaged, unless the Commission determines in accordance with Section 605 not to restore, replace or reconstruct such property or facilities. Any proceeds of such insurance not applied to restoration, replacement or reconstruction or remaining after such work is completed shall be deposited in the Revenue Fund, provided that any proceeds of insurance received by the Commission with respect to loss or damage to a Project prior to the completion of construction thereof shall be deposited in the applicable Project Account and applied in accordance with Section 503. Proceeds of insurance against loss or damage to the person or property of others shall be applied by the Commission in satisfaction of the applicable claim.

(3) If at any time the Commission determines that any of the policies of insurance required to be maintained by this Section are not reasonably obtainable or may not be obtained at a reasonable cost either with respect to coverage, amounts or deductibles, the Commission shall deposit in the Insurance Reserve Fund an amount equal to the Insurance Reserve Fund Requirement. For the purpose of this Section and Section 504(2)(viii), the Insurance Reserve Fund Requirement shall be that amount (or such greater amount provided in any Supplemental Indenture) for any Fiscal Year or portion thereof certified to the Commission by a Consulting Engineer or an insurance consultant retained by the Commission (who may be the insurance consultant or agent regularly furnishing insurance to the Commission) as adequate to reserve against the risks to be covered by the Insurance Reserve Fund. A certificate of an Authorized Officer, approved by such Consulting Engineer or insurance consultant, setting forth the Insurance Reserve Fund Requirement shall be promptly delivered to the Trustee. The Commission shall annually review the requirements of the Insurance Reserve Fund and no later than one hundred and twenty (120) days after the end of each Fiscal Year shall deliver to the Trustee a certificate of an Authorized Officer setting forth the Insurance Reserve Fund Requirement for the next ensuing Fiscal Year or any portion thereof. For purposes of Section 504(2)(viii), if at any time the Insurance Reserve Fund Requirement shall be increased pursuant to this Section or if as of the last business day of a Fiscal Year the balance in the Insurance Reserve Fund shall be less than the Insurance Reserve Fund Requirement calculated as of such date, the certificate of an Authorized Officer required by the foregoing sentence shall also specify the dates and amounts of deposits to such Fund during the next succeeding Fiscal Year

pursuant to Section 504(2)(viii) so that no later than the last day of such Fiscal Year the balance in such Fund shall equal the Insurance Reserve Fund Requirement calculated as of such date.

(4) If at any time the amounts on deposit and available therefor in the Debt Service Fund, Redemption Fund, Debt Service Reserve Fund, Renewal and Replacement Reserve Fund, Operating Capital Accounts and Operation and Maintenance Reserve Fund, are insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Commission shall withdraw from the Insurance Reserve Fund and pay to the Trustee for deposit in the Debt Service Fund the amount necessary to meet the deficiency. Subject to the foregoing, amounts in the Insurance Reserve Fund shall be applied by the Commission to the payment of liability claims and the cost of defending such claims or to the restoration, replacement or reconstruction of portions of the System lost or damaged and for which neither insurance proceeds or amounts specifically designated therefor in the Operation and Maintenance Fund are available. Any amounts withdrawn from the Insurance Reserve Fund shall be applied in the same manner as provided in this Section for the proceeds of insurance, provided that any such amount not required for the restoration, replacement or reconstruction of property lost or damaged or remaining after such work has been completed shall be redeposited in the Insurance Reserve Fund. If at any time the amount on deposit in the Insurance Reserve Fund is in excess of the Insurance Reserve Fund Requirement or if the Commission at any time should determine that such Fund is no longer required hereunder, such excess, or the balance of such Fund as the case may be, shall be paid to the Trustee for deposit in the Revenue Fund or, if all or a portion of the amounts on deposit in such Fund were derived from proceeds of a Series of Bonds, to the Redemption Fund to the extent of such portion to be applied to the redemption of Bonds of such Series.

(5) Not later than the last day of each third full Fiscal Year following the delivery of any Bonds, the Commission shall cause a Consulting Engineer or an insurance consultant retained pursuant to this Section to review the adequacy of the Insurance Reserve Fund and the Insurance Reserve Fund Requirement and the policies of insurance then maintained by the Commission and to deliver a report thereon (which may be included in the report required by Section 609(c)) to the Commission and the Trustee.

(6) If any property or facilities comprising part of the System shall be taken through the exercise of the power of eminent domain, the Commission shall apply the proceeds of any award received on account of such taking to the replacement of the property or facilities so taken, unless the Commission determines in accordance with Section 605 not to replace such property or facilities. Any proceeds of such award not applied to replacement or remaining after such work has been completed shall be deposited in the Revenue Fund.

Section 607. Creation of Liens, Other Indebtedness. (1) The Commission shall not issue any bonds, notes or other evidences of indebtedness, other than the Bonds and Subordinated Bonds, secured by a pledge of or other lien on the Revenues of the System and other moneys, securities, Reserve Deposits, if any, and funds held or set aside by the

Commission or by the Fiduciaries under the Indenture, and shall not otherwise create or cause to be created any lien or charge on the Revenues of the System, moneys, securities, Reserve Deposits, if any, and funds, except to the extent provided in this Section 607.

(2) Notwithstanding anything herein to the contrary the Commission may at any time or from to time issue notes or other evidences of indebtedness (and renewals thereof);

- (i) in anticipation of Bonds to the extent and in the manner provided in Section 207, which Bond Anticipation Notes, if so determined by the Commission, may be secured by a pledge of Revenues, provided that such pledge shall in all respects be subordinate to the provisions of the Indenture and the pledge created by the Indenture;
- (ii) in anticipation of the receipt by the Commission of any grant-in-aid from the United States of America or the State or any agency, instrumentality or political subdivision of either of them, for or on account of Capital Improvements and payable solely out of, or secured by a pledge of, the amounts to be received (which amounts shall not be deemed Revenues hereunder while any such notes are outstanding); provided that no such notes shall be issued unless (a) the Commission shall have received and accepted an agreement, whether conditional or unconditional, providing for the grant-in-aid anticipated by such notes executed by authorized officers of the grantor, (b) the aggregate principal amount of such notes (excluding renewals thereof issued by the Commission) shall not exceed the aggregate amount of the grant-in-aid provided for in such agreement and not yet received by the Commission and (c) all such notes or renewals thereof shall be issued to mature not later than four (4) years after the date of issuance and (d) the Commission shall have received the approval of the Governor of the State as required by the Act; or
- (iii) in anticipation of the Revenues to be received in any Fiscal Year, which notes may be payable out of, or secured by a pledge of, Revenues; provided that (a) any such pledge shall in all respects be subordinate to the provisions of the Indenture and the pledge created by the Indenture, (b) any such notes shall be payable no later than one year from date of issue (or, in the case of notes issued to renew such notes, no later than one year from the date of issue of the original issue of notes), (c) the aggregate amount of such notes outstanding at any one time in a Fiscal Year shall not exceed eighty percent (80%) of the Revenues for the immediately preceding Fiscal Year and (d) the proceeds of such notes (other than the proceeds of renewal notes require to pay notes) shall be deposited in the Revenue Fund.

(3) Notwithstanding anything herein to the contrary, the Commission may issue bonds, notes or other evidences of indebtedness secured solely by the revenues, receipts or other moneys derived by the Commission from the lease, license, operation, sale or other disposition of any facility or equipment constituting part of the System hereafter constructed or acquired by or on behalf of the Commission with the proceeds of such bonds, notes or evidences of indebtedness. Such revenues, receipts and other moneys shall not be considered Revenues or Rates and Charges hereunder provided that (i) neither the debt service on such bonds, notes, or other evidences of indebtedness nor any cost of the acquisition, construction, operation, maintenance or repair of any such facility or equipment nor provision for reserves for any of the foregoing shall be paid from the proceeds of Bonds or from Revenues (other than Revenues deposited in the Unrestricted Fund pursuant to Section 504) or shall be included in Operating Expenses, and (ii) any such receipts and moneys in excess of such debt service cost of acquisition, construction operation, maintenance, repair and reserves shall be deposited in the Revenue Fund (and upon such deposit shall be deemed Revenues); and (iii) prior to the issue of any such bonds, notes or other evidences of indebtedness, the Commission shall deliver to the Trustee a certificate of a Consulting Engineer or Certified Public Accountant stating that the lease, license, operation, sale or other disposition of such facility or equipment and the application of the revenues, receipts and other moneys derived therefrom to the operation, maintenance and repair thereof and the payment of the debt service on the bonds, notes or other evidences of indebtedness issued therefor and the provision of reserves for the foregoing, will not result in any decrease in the Net Revenues projected by such Consulting Engineer or Certified Public Accountant to be received by the Commission during the succeeding five Fiscal Years (including the Fiscal Year in which such bonds, notes or other evidences of indebtedness are issued).

(4) The Commission hereby reserves the right, and nothing herein shall be construed to impair such right, to finance improvements to the System by the State's issuance of its general obligation bonds for the benefit of the Commission, provided that nothing herein shall be construed as requiring the issuance of any such bonds and that no such bonds shall be deemed to be Bonds for any purpose hereunder.

(5) Nothing in this Section or in this Indenture shall prevent the Commission from issuing Notes or otherwise incurring contractual obligations which are payable solely out of, or solely secured by a pledge of amounts which may be deposited in the Unrestricted Fund pursuant to Section 504, provided that the pledge of such amounts shall in all respects be subordinate to the provisions of this Indenture.

(6) Notwithstanding anything herein to the contrary, the Commission may provide for the payment of swap termination payments from Revenues, provided that such payment obligations are junior and subordinate to the Bonds and any payments due to the Bond Insurer as required by this Indenture and provided that following any swap termination payment, the Commission shall have funds as necessary to make the necessary Debt Service Fund Requirement for each Series of Bonds.

Section 608. Annual Operating Budget. (1) Not less than one day prior to the beginning of each Fiscal Year, the Commission shall adopt and file with the Trustee an annual operating budget for the System (herein called "Annual Budget") for such Fiscal Year. The Commission may at any time, but not more often than once a month, adopt and file with the Trustee (or annually delegate to an Authorized Officer the authority to prepare and file with the Trustee) an amended or supplemental Annual Budget for the Fiscal Year then in progress, provided that an amendment for the purpose of making changes in one or more line items within the Annual Budget, but which does not increase the aggregate amount of expenses shown in the Annual Budget for such Fiscal Year may be filed by an Authorized Officer without action by the Commission and provided further that any amendment that increases the aggregate amount of expenses shown in the Annual Budget for such Fiscal Year shall be accompanied by a certificate of an Authorized Officer to the effect that such increase will not preclude compliance by the Commission with the covenants set forth in Section 603. An Authorized Officer shall prepare and may amend from time to time, a monthly breakdown of the Annual Budget which breakdown or amendment thereto shall be filed with the Trustee and shall show for each month projected Operating Expenses to be paid from the Operation and Maintenance Fund in such month, as well as the Revenues or other moneys held hereunder projected to be available to meet the same. The Commission shall not incur aggregate Operating Expenses in any Fiscal Year in excess of the aggregate amount of Operating Expenses shown in the Annual Budget as amended and supplemented for such Fiscal Year except in case of emergency or as required by law and shall promptly file a written report of any such excess expenditure with the Trustee signed by an Authorized Officer. For the purposes of this Section 608, "Authorized Officer" shall include, individually, the Chairperson and the Executive Director of the Commission.

(2) For purposes of Section 504(2), the Operation and Maintenance Reserve Fund Requirement shall mean, unless a greater amount is required by any Supplemental Indenture, (i) from the date of delivery of the initial Series of Bonds hereunder until the last day of the second full Fiscal Year after such Bonds are delivered, the amount provided in the Supplemental Indenture for the initial Bonds, and (ii) as of the last business day of each calendar month thereafter an amount equal to at least the sum of (a) the balance on deposit in the Operation and Maintenance Reserve Fund on the last day of the prior Fiscal Year and (b) one-twelfth (1/12) of the amount, if any, by which the balance of the Operation and Maintenance Reserve Fund on the last day of the prior Fiscal Year was less than the Operation and Maintenance Reserve Fund Requirement calculated as of such day multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year, and either plus (c) one-twelfth (1/12) of one-sixth (1/6) of the amount, if any, by which the projected aggregate Operating Expenses of the current Fiscal Year (as shown in the Annual Budget as then amended and supplemented for such Fiscal Year) exceeds the aggregate Operating Expenses for the prior Fiscal Year multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year or minus (d) one-sixth (1/6) of the amount, if any, by which such projected aggregate Operating Expenses are less than the aggregate Operating Expenses for the prior Fiscal Year.

For purposes of such computation, the Commission and the Trustee shall consider the amount of Operating Expenses paid in a prior Fiscal Year to be such amount as estimated by an Authorized Officer in a certificate filed with the Trustee on or before the last day of such Fiscal Year subject to adjustment with respect to the actual amount as set forth in a certificate of an Authorized Officer filed with the Trustee on or before one hundred twenty (120) days after the end of such Fiscal Year.

Section 609. Capital Improvements Budget.

(1) On or prior to the date of delivery of the initial Series of Bonds hereunder and not less than one (1) day prior to the beginning of each Fiscal Year thereafter, the Commission shall prepare and file with the Trustee a proposed program of Capital Improvements to be undertaken by the Commission during such Fiscal Year and the next two ensuing Fiscal Years, identifying the Capital Improvements to be carried out, the estimated Cost thereof and the period of construction thereof, together with a budget (herein called "Capital Improvements Budget") for the Capital Improvements or parts thereof to be undertaken by the Commission in such Fiscal Year. The Capital Improvements Budget shall include a schedule showing all projected disbursements from any Project Account or Operating Capital Account in the Project Fund and, to the extent provided by the Commission, any other fund or account under this Master Indenture, as well as the sources of moneys projected to be available to meet the same. The Capital Improvements Budget shall further identify the Capital Improvements to be undertaken, the nature of the work, the estimated Cost thereof and the estimated completion date of each Capital Improvement.

(2) The Commission may from time to time amend or supplement the Capital Improvements Budget for the Fiscal Year then in progress by filing with the Trustee a certificate of an Authorized Officer setting forth the amendment or supplement.

(3) Not later than the last day of each third full Fiscal Year following the Fiscal Year ending June 30, 2003, the Commission shall cause an examination of and report on the properties and operations of the System to be made by a Consulting Engineer and shall cause a copy of such examination and report, certified by an Authorized Officer, to be filed with the Trustee. Such examination and report shall include a review of the Commission's then current three year Capital Improvement program prepared in accordance with paragraph (1) of this Section, the current and any proposed Capital Improvements Budget and Annual Budget, the adequacy of the Renewal and Replacement Reserve Fund Requirement and such other reports, surveys and examinations as the Commission or the Consulting Engineer shall deem necessary. Any report prepared by the Consulting Engineer in connection with the issuance of Bonds within the last Fiscal Year in such three year period shall satisfy the requirements of this subsection for such three year period.

(4) For purposes of Section 504(2) and subject to the approval of the PUC, the Renewal and Replacement Reserve Fund Requirement shall mean, unless a greater amount is required by any Supplemental Indenture, (i) from the date of delivery of the initial Series of Bonds hereunder until the last day of the second full Fiscal Year following the Fiscal Year in which such Bonds are delivered, the amount provided in the Supplemental Indenture for the initial Bonds, and (ii) as of the last day of each calendar month thereafter an amount at least equal to the sum of (a) one-twelfth ( $1/12$ ) of the amount, if any, by which the balance in the Renewal and Replacement Reserve Fund on the last day of the prior Fiscal Year was less than the Renewal and Replacement Reserve Fund Requirement calculated as of such day, multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year, and either plus (c) one-twelfth ( $1/12$ ) of the amount, if any, by which a Consulting Engineer shall have certified to the Commission in accordance with paragraph (3) of this Section 609 that the Renewal and Replacement Reserve Fund Requirement should be increased for the current Fiscal Year, multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year, or minus (d) the amount, if any, by which such Consulting Engineer shall have certified that the Renewal and Replacement Reserve Fund Requirement can be decreased for the current Fiscal Year.

#### Section 610. Accounts and Reports.

The Commission shall annually, within 270 days after the close of each Fiscal Year or as soon thereafter as is practicable, file with the Trustee a copy of financial statements, audited by and containing the report of an independent public accountant or firm of accountants acceptable to the Trustee, relating to or including schedules relating to the operations and properties of the System for such Fiscal Year and setting forth in reasonable detail its financial condition as of the end of such year and income and expenses for such year, and including a summary of the receipt in and disbursements from the funds and accounts maintained under the Indenture during such Fiscal Year and the amounts held therein at the end of such Fiscal Year. In the event that such financial statements are not available within 270 days after the close of each Fiscal Year, the Commission shall so notify the Trustee in writing within 270 days. Each annual report shall be accompanied by a certificate of the accountant or firm of accountants auditing the same to the effect that in the course of and within the scope of their examination of such financial statements nothing came to their attention that would lead them to believe that an Event of Default had occurred under the Indenture or, if such is not the case, specifying the nature of the Event of Default.

## ARTICLE VII

## DEFAULTS AND REMEDIES

Section 701. Events of Default. The occurrence of one or more of the following events shall constitute an "Event of Default":

- (i) if default shall be made by the Commission in the payment of the Principal Installments or Redemption Price of any Bond when due, whether at maturity or by call for mandatory redemption or redemption at the option of the Commission or any Holder, or otherwise, or in the payment of any sinking fund payment when due,
- (ii) if default shall be made by the Commission in the payment of any installment of interest on any Bond when due,
- (iii) if default shall be made by the Commission in the payment of any installment of interest on or any Principal Installment or Redemption Price of any Subordinated Bonds when due,
- (iv) if default shall be made by the Commission in the performance or observance of any other of the covenants, agreements or conditions on its part provided in the Indenture or in the Bonds and such default shall continue for a period of 30 days after written notice thereof shall be given to the Commission by the Trustee or to the Commission and the Trustee by the Holders of a majority in Principal Amount of the Bonds Outstanding; provided that if such default cannot be remedied within such 30 day period, it shall not constitute an Event of Default hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the default is remedied,
- (v) if an order, judgment or decree is entered by a court of competent jurisdiction (a) appointing a receiver, trustee, or liquidator for the Commission or the whole or any substantial part of the System, (b) granting relief in involuntary proceedings with respect to the Commission under the federal bankruptcy act, or (c) assuming custody or control of the Commission or of the whole or any substantial part of the System under the provision of any law for the relief of debtors, and the order, judgment or decree is not set aside or stayed within sixty (60) days from the date of entry of the order, judgment or decree, or



- (vi) if the Commission (a) admits in writing its inability to pay its debts generally as they become due, (b) commences voluntary proceedings in bankruptcy or seeking a composition of indebtedness, (c) makes an assignment for the benefit of its creditors, (d) consents to the appointment of a receiver of the whole or any substantial part of the System, or (e) consents to the assumption by any court of competent jurisdiction under any law for the relief of debtors of custody or control of the Commission or of the whole or any substantial part of the System.

The Commission shall promptly give the Trustee notice of any Event of Default with respect to Agency Bonds issued to the Agency prior to the date of this Indenture. Upon the occurrence of an Event of Default described in clauses (i), (ii), (v) or (vi), so long as such Event of Default shall not have been cured, either the Trustee (by notice in writing to the Commission), or the Holders of twenty-five percent (25%) in Principal of the Bonds Outstanding (by notice in writing to the Commission and the Trustee) may, with the consent of the Agency (so long as there are Agency Bonds Outstanding hereunder), declare the Principal Amount of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding. The right to make such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all outstanding Events of Default (other than the payment of the Principal Amount and interest due and payable solely by reason of such declaration) shall have been cured or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case, unless a final judgment has been obtained for any Principal Amount or interest coming due and payable solely by reason of such declaration, the Holders of a majority in Principal Amount of the Bonds Outstanding, by written notice to the Commission and to the Trustee, may annul such declaration, or, if the Trustee shall have acted without a direction from Bondholders and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in Principal Amount of the Bonds then Outstanding, then any such declaration shall be deemed to be annulled.

#### Section 702. Application of Revenues and Other Moneys after Default.

(1) The Commission covenants that if an Event of Default shall happen and shall not have been remedied, the Commission, upon demand of the Trustee, shall pay over and assign to the Trustee (i) forthwith, all moneys, securities, Reserve Deposits, Additional Security, if any, and funds then held by the Commission in any fund or account pledged under the Indenture including, without limitation, funds then held by it in the Revenue Fund, and (ii) as promptly as practicable after receipt thereof the Revenues.

(2) During the continuance of an Event of Default, the Trustee shall apply the moneys, Reserve Deposits, Additional Security, if any, and funds held by the Trustee and such Revenues and the income therefrom as follows and in the following order:

- (i) to the payment of the reasonable and proper charges and expenses of the Fiduciaries and of its agents, representatives, advisors and legal counsel, and of any engineer or firm of engineers selected by the Trustee pursuant to this Article and to the payment of any fees and expenses required to keep any Reserve Deposits or Additional Security in full force and effect;
- (ii) to the payment of the amounts required for reasonable and necessary Operating Expenses, including reasonable and necessary reserves and working capital therefor, and for the reasonable repair and replacement of the System necessary to prevent loss of Revenues or to provide for the continued operation of the System, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of engineers retained by the Commission for other purposes) selected by the Trustee;
- (iii) to the payment of the interest and Principal Amount or Redemption Price then due on the State Obligations and the Bonds, as follows:
  - (a) unless the Principal Amount of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest or Qualified Swap Payments then due in the order of the maturity of such installments maturing (or payments due), and, if the amount available shall not be sufficient to pay in full all installments maturing (or payments due) on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amount or Redemption Price of any State Obligations and Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the State Obligations and Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Amount or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

- (b) if the Principal Amount of all of the Bonds shall have become or have been declared due and payable, to the payment of the Principal Amount and interest or Qualified Swap Payments then due and unpaid upon the State Obligations and Bonds without preference or priority of

Principal Amount over interest or Qualified Swap Payments or of interest over Principal Amount or Qualified Swap Payments, or of any installment of interest (or payment due) over any other installment of interest (or payment due), or of any Bond over any other Bond, ratably, according to the amounts due respectively for Principal Amount and interest and Qualified Swap Payments, to the persons entitled thereto without any discrimination or preference;

(3) If and whenever all overdue installments of interest on all Bonds together with the reasonable and proper charges and expenses of the Fiduciaries including without limitation the fees and disbursements of its legal counsel, and all other sums payable by the Commission under the Indenture, including the Principal Installments and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Commission, or provision satisfactory to the Trustee shall be made for such payment and all defaults under the Indenture or the Bonds shall have been cured, the Trustee shall pay over to the Commission all moneys, securities and funds remaining unexpended in all funds and accounts provided by the Indenture to be held by the Commission, and thereupon the Commission and the Trustee shall be restored, respectively, to their former positions and rights under the Indenture and all Revenues shall thereafter be applied as provided in Article V. No such payment over to the Commission by the Trustee or resumption of the application of Revenues as provided in Article V shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

(4) The proceeds of any Reserve Deposits and Additional Security shall be applied by the Trustee in the manner provided in the applicable Supplemental Indenture authorizing such Reserve Deposits and Additional Security.

Section 703. Proceedings Brought by Trustee. (1) Whether or not a declaration shall be made by the Trustee or Bondholders pursuant to Section 701, if an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee may proceed to protect and enforce its rights and the rights of the Holders of the Bonds under the Indenture by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Commission as if the Commission were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

(2) All rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings.

(3) The Holders of a majority in Principal Amount of the Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if

the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

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

Section 704. Restriction on Bondholders' Action. (1) No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or for any remedy under the Indenture, unless such Holder shall have previously given to the Trustee written notice of the happening of any Event of Default and shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity to exercise the powers granted in this Article in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred thereby or in connection therewith, and the Trustee shall have refused to comply with such request within a reasonable time.

(2) Nothing in the Indenture shall affect or impair the obligation of the Commission to pay on the respective dates of maturity thereof the Principal Amount of and interest on the Bonds, or affect or impair the right of action of any Holder to enforce the payment of his Bond.

Section 705. Remedies not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or provided at law or in equity or by statute.

Section 706. Effect of Waiver and Other Circumstances. No delay or omission of the Trustee or of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or to be an acquiescence therein.

(2) Prior to the declaration of maturity of the Bonds as provided in Section 701, the Holders of a majority in Principal Amount of the Bonds at the time Outstanding may on behalf of the Holders of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or Principal Installments or Redemption Price of any of the Bonds. No such waiver shall extend to any subsequent or other default.

## ARTICLE VIII

## THE FIDUCIARIES

Section 801. Trustee. J.P. Morgan Trust Company, National Association is hereby appointed Trustee under the Indenture. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Indenture by executing the Indenture and by executing such Indenture, the Trustee shall be deemed to have accepted such duties and obligations not only with respect to the initial Bonds but with respect to all the Bonds thereafter to be issued, but only, however, upon the terms and conditions set forth in the Indenture.

Section 802. Paying Agents. (1) Unless otherwise provided in the applicable Supplemental Indenture, the Trustee shall act as a Paying Agent for all Series of Bonds. The Commission may appoint one or more additional Paying Agents for the Bonds of any Series in the applicable Supplemental Indenture. Each Paying Agent shall be a bank or trust company or national banking association having a capital and surplus aggregating at least twenty-five million dollars (\$25,000,000), if there is such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Indenture by executing and delivering to the Commission and to the Trustee a written acceptance thereof.

(2) If at any time a Paying Agent is unable or unwilling to act as Paying Agent, the Paying Agent may resign upon 30 days' prior written notice to the Commission and the Trustee. Such resignation shall become effective upon the date specified in such notice, unless a successor Paying Agent has not been appointed, in which case such resignation shall become effective upon the appointment of such successor. The Paying Agent may be removed at any time by the Commission by written notice signed by the Commission delivered to the Trustee, each Bondholder and the Paying Agent. Upon resignation or removal of the Paying Agent, the Commission shall appoint a successor Paying Agent which shall be a bank or trust company which meets the requirements of subsection (1) of this Section 802. The Commission shall notify each Bondholder of the related Series of Bonds of the appointment of such successor. Upon the resignation or removal of the Paying Agent, the Paying Agent shall pay over, assign and deliver any moneys and Bonds held by it in trust pursuant to this Section 802 to its successor.

Section 803. Depositories. The Commission may appoint one or more Depositories to hold, as an agent for the Trustee, moneys to be held under the provisions of this Indenture. Each Depository shall be a bank or trust company or national banking association having capital and surplus aggregating at least twenty-five million dollars (\$25,000,000), if there is such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed on it by the Indenture. As a condition to the appointment of any Depository such Depository shall agree to provide monthly reports to the Trustee as to the balances on deposit in the fund or funds held by

such Depository and shall acknowledge in writing that the moneys held by it are being held by it as agent for the Trustee and subject to the provisions of Section 501.

Section 804. Responsibility of Fiduciaries. (1) The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Commission and no Fiduciary assumes any responsibility for the correctness of the same. The duties and obligations of the Fiduciaries shall be determined by the express provisions of the Indenture and the Fiduciaries shall not be liable except for their performance of such duties and obligations as are specifically set forth herein. No Fiduciary makes any representations as to the validity or sufficiency of the Indenture or of any Bonds issued thereunder or in respect of the security afforded by the Indenture, and no Fiduciary shall incur any responsibility in respect thereof. The Authenticating Agent for any Bonds shall, however, be responsible for its representation contained in its certificate of authentication on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the Commission or any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own gross negligence or willful default nor shall any Fiduciary be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(2) All moneys held by any Fiduciary, as such, at any time pursuant to the terms of the Indenture shall be and hereby are assigned, transferred and set over unto such Fiduciary in trust for the purposes and under the terms and conditions of the Indenture.

Section 805. Evidence on Which Fiduciary May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the Commission, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate executed in the name of the Commission by an Authorized Officer, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Indenture upon the faith thereof, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may deem reasonable.

Section 806. Compensation. Unless otherwise provided by contract with such Fiduciary, the Commission shall pay to each Fiduciary from time to time reasonable compensation for all services rendered hereunder, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, consultants and employees incurred in and about the performance of their powers and duties hereunder. The Commission, to the extent permitted by law, shall indemnify and save each Fiduciary harmless against any liabilities, costs and expenses which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its own gross negligence or willful default.

Section 807. Permitted Acts. Any Fiduciary may become the owner of any Bonds and may otherwise deal with the Commission, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depositary for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Indenture, whether or not any such committee shall represent the Holders of a majority in Principal Amount of the Bonds Outstanding.

Section 808. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than sixty (60) days' written notice to the Commission and giving not less than thirty (30) days' written notice to each Bondholder and Paying Agent specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice provided a successor shall have been appointed, unless previously a successor shall have been appointed by the Commission or the Bondholder as hereinafter provided, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 809. Removal of Trustee. The Trustee may be removed (i) at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Holders of a majority in Principal Amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Commission, and (ii) so long as no Event of Default shall have occurred and be continuing, at any time by an Authorized Officer of the Commission by an instrument in writing filed with the Trustee.

Section 810. Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Commission, so long as no Event of Default shall have occurred and be continuing hereunder, or by the Holders of a majority in Principal Amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Commission, by an instrument or concurrent instruments in writing signed and acknowledged by

such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Commission and the predecessor Trustee. Pending such appointment, the Commission by a written instrument signed by an Authorized Officer and delivered to the predecessor Trustee shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Bondholders as herein authorized. The Commission shall give written notice of any such appointment made by it to each Bondholder and Paying Agent at least thirty (30) days after the date of such appointment. Any successor Trustee appointed by the Commission shall, immediately and without further act, be superseded by a Trustee appointed by the Bondholders. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five (45) days after the Trustee shall have given to the Commission written notice as provided in Section 808 or after the occurrence of any other event requiring or authorizing such appointment, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee. The Trustee shall continue to serve until a successor Trustee shall be appointed under the provisions of this Section. Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company organized under the laws of the State, or a national banking association doing business in the State, having a capital and surplus aggregating at least fifty-million dollars (\$50,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Indenture.

Section 811. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the predecessor Trustee, and also to the Commission, an instrument accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as Trustee herein, but the Trustee ceasing to act shall nevertheless, on the written request of the Commission, or of the Successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurances and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it hereunder, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth.

Section 812. Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business provided such company shall be a bank or trust company or national banking association which is qualified to be a successor to such Fiduciary under Section 810 or Section 802(1) and shall be authorized by law to perform all the duties imposed upon it by the Indenture, shall be the successor to such



Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

## ARTICLE IX

### SUPPLEMENTAL INDENTURES

Section 901. Supplemental Indentures Effective upon Execution and Delivery. The Commission and the Trustee may at any time and from time to time and without the consent of or notice to any of the Bondholders execute and deliver a Supplemental Indenture supplementing the Indenture for any one or more of the following purposes:

- (1) to close the Indenture against, or provide limitations and restrictions not contained in the Indenture on, the original issuance of Bonds;
- (2) to add to the covenants and agreements of the Commission contained in the Indenture other covenants and agreements thereafter to be observed for the purpose of further securing the Bonds;
- (3) to surrender any right, power or privilege reserved to or conferred upon the Commission by the Indenture;
- (4) to preserve the excludability of Interest on any Bonds from gross income for the purpose of federal income taxes, or to change the tax covenants set forth in Section 503, 509 or 604 pursuant to an Opinion of Bond Counsel that such action will not affect adversely such excludability;
- (5) to authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds not contrary to or inconsistent with the Indenture;
- (6) to amend the obligations of the Commission with respect to the State Obligations, pursuant to an agreement with the State, provided that such amendment, in the conclusive determination of the Trustee is not adverse to the Bondholders;
- (7) to exercise any provision herein or to make such determinations hereunder as expressly provided herein to be exercised or determined in a Supplemental Indenture;
- (8) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Indenture of the Revenues;
- (9) to reflect a change in the Fiscal Year of the Commission, and to make changes to the dates set forth in this Indenture to the extent necessary to conform such dates to the amended Fiscal Year;

(10) to provide for the issuance of Subordinated Bonds and amendments to the Indenture in accordance with Section 208; and

(11) to make any other change which, in the conclusive determination of the Trustee, is not adverse to the Bondholders;

Section 902. Supplemental Indenture Regarding Ambiguities. At any time or from time to time and without the consent of or notice to any of the Bondholders but subject to the conditions or restrictions in the Indenture contained, the Commission and the Trustee may enter into an indenture amending or supplementing the Indenture curing any ambiguity or curing correcting or supplementing any defect or inconsistent provisions contained in the Indenture or making such provisions in regard to matters or questions arising under the Indenture as may be necessary or desirable and not contrary to or inconsistent with the Indenture.

Section 903. Supplemental Indentures Amending Indenture or Bonds. At any time or from time to time but subject to the conditions or restrictions in the Indenture contained, the Commission and the Trustee may enter into an indenture amending or supplementing the Indenture, modifying any of the provisions of the Indenture or Bonds or releasing the Commission from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained, but, except as provided in Section 901 and Section 902, no such indenture shall be effective unless (a) no Bonds authorized by a Supplemental Indenture adopted prior to the adoption of such indenture remain Outstanding at the time it becomes effective, or (b) such indenture is consented to by or on behalf of Bondholders, in accordance with and subject to the provisions of Article X.

Section 904. Execution and Delivery of Supplemental Indentures. Any Supplemental Indenture referred to and permitted or authorized by this Article IX shall become effective only on the conditions, to the extent and at the time provided in this Article. Every such indenture becoming effective shall thereupon form a part of the Indenture. The Trustee in executing or accepting the additional trusts permitted by this Article or the modifications thereby of the trusts created by this Indenture shall be fully protected in relying on a Counsel's Opinion to the effect that such indenture has been duly and lawfully adopted by the Commission in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture, and constitutes the lawful and binding obligation of the Commission in accordance with its terms.

Section 905. Provider of Additional Security or Reserve Deposits as Holder of the Bonds. Subject to anything contrary set forth in a Supplemental Indenture, as long as Additional Security of Reserve Deposits with respect to the Bonds securing all or a portion of the Bonds Outstanding is in effect, the provider of such Additional Security or Reserve Deposit to the extent so authorized in the applicable Supplemental Indenture, shall be deemed to be the Holder of the Bonds secured by the Additional Security or Reserve Deposits: (i) at all times for the purpose of the execution and delivery of the Supplemental Indenture or of any amendment, change or modification of this Indenture or the initiation by Bondholders of any action to be undertaken by the Trustee at the Bondholders' request, which under this Indenture requires the written approval or consent of or can be initiated by the Holders of at least a majority in

aggregate principal amount of the Bonds at the time Outstanding, (ii) at all times for the purpose of the mailing of any notice to Bondholders under this Indenture, and (iii) following an Event of Default for all other purposes. Notwithstanding the foregoing, a provider of Additional Security or a Reserve Deposit shall not be deemed to be a Holder of the Bonds with respect to any such Supplemental Indenture or of any amendment, change or modification of this Indenture which would have the effect of permitting (i) a change in the terms of redemption or maturity of any Outstanding Bonds or of any installment of interest thereon or (ii) a reduction in the Principal Amount or the Redemption Price thereof or in rate of Interest thereon or (iii) reducing the percentage or otherwise affecting the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

## ARTICLE X

### AMENDMENTS

Section 1001. Mailing. Any provision in this Article X for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each Holder of Bonds then Outstanding at his address, if any, appearing upon the register and (ii) to the Trustee.

Section 1002. Powers of Amendment. Any modification or amendment of the Bonds or of the Indenture may be made by a Supplemental Indenture, with the written consent given as provided in Section 1003, (i) of the Holders of at least a majority in aggregate Principal Amount of all Bonds Outstanding at the time such consent is given or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in aggregate Principal Amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series or maturity remain Outstanding, the vote or consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section; and provided, further, that no such modification or amendment shall permit a change in the terms of redemption or maturity of the Principal Amount of any Outstanding Bond, or of any installment of interest thereon or a reduction in the Principal Amount or the Redemption Price thereof or the rate of interest thereon or the method for determining such rate without the consent of the Holder of such Bond, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto, or shall reduce the percentages of the Principal Amount of Bonds the consent of which is required to effect any such modification or amendment.

Section 1003. Consent of Bondholders. The Commission may at any time adopt a Supplemental Indenture making a modification or amendment permitted by the provisions of Section 1002, to take effect when and as provided in this Section. Upon the adoption of such Supplemental Indenture, a copy thereof, certified by an Authorized Officer, shall be filed with the Trustee for the inspection of the Bondholders. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved in writing by the Trustee) together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Commission to each affected Bondholder. Such Supplemental Indenture shall not become effective until there shall have been filed with the Trustee the written consents of the percentages of the Holders of Outstanding Bonds specified in Section 1002 and a notice shall have been given as hereinafter in this Section provided. Any such consent shall be binding upon the Holder of the Bonds giving such consent and on any subsequent Holder of such Bonds (whether or not such subsequent Holder has notice thereof). At any time after the Holders of the required percentages of Bonds shall have filed their consent to the Supplemental Indenture, notice, stating in substance that the Supplemental Indenture has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section, may be given to the Bondholders by mailing such notice to Bondholders. The Commission shall file with the Trustee proof of giving such notice. Such Supplemental Indenture shall be deemed conclusively binding upon the Commission, the Fiduciaries and the Holders of all Bonds at the expiration of sixty (60) days after the filing with the Trustee of the proof of the mailing of such notice, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding commenced for such purpose within such sixty day period; provided, however, that any Fiduciary and the Commission during such sixty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture as they may deem expedient.

Section 1004. Modification by Unanimous Action. Notwithstanding anything contained in Article IX or in the foregoing provisions of this Article, the rights and obligations of the Commission and of the Holders of the Bonds and the terms and provisions of the Bonds or of the Indenture may be modified or amended in any respect upon the adoption of a Supplemental Indenture by the Commission and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in Section 1003 except that no notice to Bondholders shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

Section 1005. Exclusion of Bonds. Bonds owned or held by or for the account of the Commission shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in this Article, and shall not be entitled to consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the Commission shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 1006. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as hereinabove in this Article X provided may, and, if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the Commission and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at or after such effective date and presentation of his Bond for the purpose to the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Commission or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Commission to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Holder of any Bond then outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds.

## ARTICLE XI

### DEFEASANCE

Section 1101. Defeasance. (1) If the Commission shall (i) pay or cause to be paid, or there shall otherwise be paid to the Holders of the Bonds then Outstanding, the Principal Amount and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Indenture and (ii) discharge and satisfy its obligations under any Qualified Swap Agreement, then the pledge of any Revenues or other moneys, securities, Reserve Deposits and Additional Security, if any, pledged by the Indenture and all other rights granted by the Indenture shall be discharged and satisfied. In such event, the Trustee shall, upon request of the Commission, execute and deliver to the Commission all such instruments as may be desirable to evidence such release and discharge and the Fiduciaries shall pay over or deliver to the Commission all moneys or securities held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment for redemption.

(2) Bonds or interest installments for the payment or redemption of which moneys shall be held by the Fiduciaries (through deposit by the Commission of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (1) of this Section 1101. All Outstanding Bonds of any Series or any part of a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (1) of this Section 1101 if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Commission shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to provide as provided in Article IV, notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Permitted Investments of the type described in clause (1) of the definition thereof or Advance Refunded Municipal

Bonds not subject to redemption at the option of the issuer thereof prior to the due date thereof, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the time of deposit of such Permitted Investments, shall be sufficient to pay when due the Principal Amount or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Commission shall have given the Trustee in form satisfactory to it irrevocable instructions to provide, as soon as practicable, at least thirty (30) days written notice to the Holders of such Bonds that the deposit required by clause (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with paragraph (1) of this Section 1101 and stating the maturity or redemption date upon which moneys are to be available for the payment of the Principal Amount or Redemption Price, if applicable, on said Bonds. Neither Permitted Investments nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Permitted Investments shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the Principal Amount or Redemption Price, if applicable, and interest on said Bonds, provided that any cash received from the principal or interest payments on such Permitted Investments deposited with the Trustee, if not then needed for such purpose, may, to the extent practicable, be reinvested in Permitted Investments maturing at times and in principal amounts sufficient to pay when due the Principal Amount or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be. After the making of the payments for which such Permitted Investments or moneys were held, any surplus shall be promptly paid over to the Commission, as received by the Trustee, free and clear of any trust, lien or pledge or assignment securing the Bonds or otherwise existing under this Indenture.

(3) For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Government Obligations and moneys, if any, in accordance with subsection (2)(ii) hereof, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Variable Rate Ceiling; provided, however, that if on any date, as a result of such Variable Rate Bonds having borne interest at less than such Variable Rate Ceiling for any period, the total amount of moneys and Government Obligations on deposit with the Trustee for the payment of interest on such Variable Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Bonds in order to satisfy the provisions of subsection (2)(ii) above, the Trustee shall, if requested by the Commission, pay promptly the amount of such excess to the Commission free and clear of any trust, lien, pledge or assignment securing the Bonds or otherwise existing under this Indenture.

(4) Tender Bonds shall be deemed to have been paid in accordance with subsection (2)(ii) hereof only if, in addition to satisfying the requirements thereof, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the

maximum Principal Amount and Redemption Price of and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions of subsection (2)(ii) above, the options originally exercisable by the Holders of Tender Bonds are no longer exercisable, such Bonds shall not be considered Tender Bonds for purposes of this subsection (4). If any portion of the moneys deposited with the Trustee for the payment of the Principal Amount or Redemption Price of and interest on Tender Bonds is not required for such purpose the Trustee shall, if requested by the Commission, pay promptly the amount of such excess to the Commission free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Indenture.

(5) Anything in the Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any Bonds which remain unclaimed for three (3) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for three (3) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the Commission, be repaid promptly by the Fiduciary to the Commission, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Commission for the payment of such Bonds; provided, however, that before being required to make any such payment to the Commission, the Fiduciary shall, at the expense of the Commission, cause to be mailed to the Holders of all Bonds Outstanding a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of mailing of such notice, the balance of such moneys then unclaimed will be returned promptly to the Commission.

## ARTICLE XII

### MISCELLANEOUS

Section 1201. Evidence of Signatures of Bondholders and Ownership of Bonds. (1) Any request, consent or other instrument which the Indenture may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing.

(2) The ownership of Bonds and the amount, numbers and other identification, and date of owning the same, shall be proved solely by the registry books.

(3) Any request, consent or vote of the Holder of any Bond shall bind all future Holders of such Bond in respect of anything done or suffered to be done by the Commission or any Fiduciary in accordance therewith.

Section 1202. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Commission, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof at their own expense.

Section 1203. No Recourse on the Bonds. No recourse shall be had for the payment of the Principal Amount or Redemption Price of or the interest on the Bonds or for any claim based thereon or on the Indenture against any member, officer, agent, representative or employee of the Commission or any person executing the Bonds. No member, officer, agent, representative or employee of the Commission shall be held personally liable to any purchaser or Holder of any Bond under or upon such Bond, or under or upon the Indenture or any Supplemental Indenture relating to Bonds, or, to the extent permitted by law, because of the sale or issuance or attempted sale or issuance of Bonds, or because of any act or omission in connection with the construction, acquisition, operation or maintenance of the System, or because of any act or omission in connection with the investment or management of the Revenues, funds or moneys of the Commission, or otherwise in connection with the management of its affairs, excepting solely for things wilfully done or omitted to be done with an intent to defraud.

Section 1204. Partial Invalidity. If any provision of the Indenture or any Supplemental Indenture is held invalid in any circumstance, such invalidity shall not affect any other provisions or circumstances.

Section 1205. Law and Place of Enforcement of the Indenture. The Indenture shall be construed and governed in accordance with the laws of the State and all suits and actions arising out of the Indenture shall be instituted in a court of competent jurisdiction in the State.


Section 1206. Business Days. Except as otherwise required herein, if this Indenture requires any parties to act on a specific day and such day is not a Business Day, such parties need not perform such act until the next succeeding Business Day, and such act shall be deemed to have been performed on the day required.

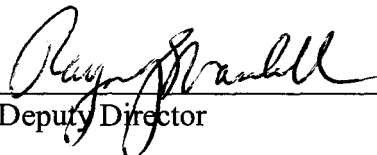
Section 1207. Effective Date. The Indenture shall be effective upon its execution by the Commission and the Trustee.



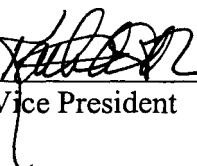
IN WITNESS WHEREOF, the Commission has caused this Indenture to be signed in its name by its Chairperson and attested by its Deputy Director, and the Trustee, in acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunder duly authorized all as of the day and year first above written.

## NARRAGANSETT BAY COMMISSION

By:   
Chairperson


By:   
Deputy Director

J.P. MORGAN TRUST COMPANY,  
NATIONAL ASSOCIATION, as Trustee

By:   
Vice President

CONSENT

Pursuant to the requirements of Section 601 of the Trust Agreement between the Narragansett Bay Commission (the "NBC"), formerly known as the Narragansett Bay Water Quality Management District Commission, and J.P. Morgan Trust Company as successor trustee to Citizens Bank of Rhode Island, as Trustee dated as of July 1, 1997 (the "1997 Trust Agreement"), I hereby consent to the replacement of the 1997 Trust Agreement by the Trust Indenture between the Narragansett Bay Commission and J.P. Morgan Trust Company National Association, as Trustee securing Wastewater System Revenue Bonds dated as of April 15, 2004 (the "2004 Trust Indenture"). It is intended that the 2004 Trust Indenture replace and supercede the 1997 Trust Agreement and that the 2004 Trust Indenture continue the pledge made by the NBC in the 1997 Trust Agreement for the benefit of the State of Rhode Island that the NBC will pay principal of, premium, if any and interest on State debt as required by Rhode Island General Laws Section 46-25-5(9) on a parity with any Bonds issued by the NBC.

  
\_\_\_\_\_  
Donald L. Carcieri  
Governor

Dated: April 27, 2004

FIRST SUPPLEMENTAL INDENTURE

between

NARRAGANSETT BAY COMMISSION

and

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, AS TRUSTEE

Governing the Issuance of \$70,000,000  
Wastewater System Revenue Bonds, 2004 Series A

Dated as of April 15, 2004

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FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE (the "First Supplemental Indenture") dated as of April 15, 2004 is made by and between the NARRAGANSETT BAY COMMISSION (the "Commission"), a public corporation organized and existing under the laws of the State of Rhode Island, and J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION (the "Trustee" or "Paying Agent"), a trust company duly organized and validly existing under the laws of the United States of America authorized to exercise corporate trust powers:

W I T N E S S E T H :

WHEREAS, the Commission and the Trustee have entered into a Trust Indenture dated as of April 15, 2004 (the "Indenture"); and

WHEREAS, within the limitations of and in compliance with Articles II and IX of the Indenture, the Commission is authorized to issue one or more Series of Bonds; and

WHEREAS, the Commission has determined to issue a Series of Bonds in the aggregate principal amount of \$70,000,000 (the "2004 Series A Bonds"), the proceeds of which shall be used to provide a portion of the moneys necessary to finance the acquisition, design, evaluation, inspection, construction, improvement, installation, rehabilitation, furnishing and equipping of the Commission's (i) the Field's Point Wastewater Treatment Facilities, (ii) the Bucklin Point Wastewater Treatment Facilities, (iii) the wastewater collection and conveyance system, (iv) Nitrogen Removal Facilities, (v) Combined Sewer Overflow (CSO) Abatement Facilities, (vi) Water Quality Monitoring and Data Analysis, (vii) Biosolids Handling Facilities, (viii) Asset Management System, (ix) CSO Flow and Water Quality Monitoring, (x) Stormwater Attenuation, (xi) Facilities Planning, (xii) Pump Stations, (xiii) Floatables Control Facilities, (xiv) Geographic Information System (GIS) program, (xv) Capacity Management Operations and Maintenance (CMOM) Program, (xvi) Sewer System Capacity Analysis and (xvii) CSO Interceptors for the 2004 Series A Bonds; and

WHEREAS, the Indenture provides at Section 205 that, in connection with the issuance of a Series of Bonds, the Commission and the Trustee shall execute a Supplemental Indenture governing the issuance of the Series of Bonds and setting forth the provisions thereof; and

WHEREAS, the Commission has taken all necessary action to make the 2004 Series A Bonds, when authenticated by the Authenticating Agent and issued by the Commission, valid and binding obligations of the Commission and to constitute this First Supplemental Indenture a valid and binding instrument for the authorization of and security for the 2004 Series A Bonds;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE FURTHER WITNESSETH: That the Commission does hereby covenant and agree with the Trustee and with the respective Holders, from time to time, of the Outstanding 2004 Series A Bonds, as follows:

## ARTICLE I

### DEFINITIONS AND AUTHORITY

Section 1.01 Definitions. (1) Except as provided in subsection (2) of this Section, all terms used herein shall have the same meanings in this First Supplemental Indenture as are given such terms in Section 1.01 of the Indenture.

(2) In this First Supplemental Indenture unless a different meaning clearly appears from the context:

"Act of Bankruptcy" means the filing of a petition in bankruptcy by or against the Commission or the commencement of a receivership, insolvency, assignment for the benefit of creditors or other similar proceeding by or against the Commission, unless such case or petition was dismissed and all applicable appeal periods have expired without an appeal having been filed.

"Affiliate" means any Person directly or indirectly controlling, controlled by or under common control with the Commission. For purposes of this definition the term "control" shall mean the direct or indirect ability to determine the direction of management and policies through ownership, contract or otherwise.

"ARCs" means any 2004 Series A Bonds bearing interest at an Auction Rate.

"ARCs Interest Period" means each period described in the ARCs Provisions as an "Interest Period" during which the 2004 Series A Bonds bear interest at a particular ARCs Rate.

"ARCs Provisions" means the Special Provisions Relating to ARCs attached hereto as Exhibit B.

"ARCs Rate" or "Auction Rate" means the rate of interest per annum that results from the implementation of the ARCs Provisions.

"Auction Agency Agreement" shall have the meaning set forth in the ARCs Provisions.

"Auction Agent" shall have the meaning set forth in the ARCs Provisions.

"ARCs Rate Period" means the period during which ARCs Rates are in effect for the 2004 Series A Bonds.

"Authorized Denominations" means (i) with respect to Fixed Rate Bonds, \$5,000 and any integral multiple thereof, (ii) with respect to ARCs, \$25,000 and any integral multiple thereof, and (iii) with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds, \$100,000 and any integral multiple thereof.

"Available Moneys" means (1) moneys or investments that have been on deposit in a separate and segregated account in the Redemption Fund held by the Trustee for at least one hundred twenty-four (124) days prior to the expiration of which no Act of Bankruptcy shall have occurred and proceeds from the investment thereof if, in the written opinion of counsel experienced in bankruptcy matters received by the Trustee and the Bond Insurer, the application of such moneys will not constitute an avoidable transfer in the event of the occurrence of an Act of Bankruptcy; (2) the proceeds of the sale of refunding obligations of the Commission and proceeds from the investment thereof, if, in the written opinion of counsel experienced in bankruptcy matters received by the Trustee, the application of such moneys will not constitute an avoidable transfer in the event of the occurrence of an Act of Bankruptcy; or (3) any other amounts if, in the written opinion of counsel experienced in bankruptcy matters received by the Trustee, the application of such moneys will not constitute an avoidable transfer in the event of the occurrence of an Act of Bankruptcy.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer that guarantees the payment of regularly scheduled principal of and interest on the Bonds.

"Bond Insurer" means MBIA Insurance Corporation, or any successor thereto.

"Bond Register" means the registration books of the Commission kept by the Trustee to evidence the registration and transfer of 2004 Series A Bonds.

"Broker-Dealer" shall have the meaning set forth in the ARCs Provisions.

"Broker-Dealer Agreement" shall have the meaning set forth in the ARCs Provisions.

"Business Day" means (a) while the 2004 Series A Bonds are ARCs, shall have the meaning set forth in the ARCS Provisions or (b) while the 2004 Series A Bonds are not ARCs, a day (i) other than a day on which banks located in the City of New York, New York or the cities in which the Principal Office of the Trustee, the Tender Agent, the Remarketing Agent, Bond Insurer or the Liquidity Provider are located, are required or authorized by law or executive order to close, and (ii) on which the New York Stock Exchange is not closed.



"Code" means the Internal Revenue Code of 1986 as amended from time to time and the regulations thereunder and under the Internal Revenue Code of 1954 to the extent applicable.

"Commission Bonds" means 2004 Series A Bonds registered in the name of the Commission or any broker-dealer or nominee owning 2004 Series A Bonds pursuant to an arrangement with the Commission.

"Conversion Date" means a date on which the 2004 Series A Bonds begin to bear interest at ARCs Rates, Daily Rates, Weekly Rates, Short-Term Rates, Long-Term Rates or Fixed Rates as provided in Section 2.04.

"Daily Interest Period" means each period described in Section 2.03(d) during which the 2004 Series A Bonds bear interest at a particular Daily Rate.

"Daily Rate" means the per annum interest rate for the 2004 Series A Bonds during a Daily Interest Period determined on a daily basis as provided in Section 2.03(d).

"Daily Rate Bonds" means 2004 Series A Bonds bearing interest at a Daily Rate.

"Daily Rate Period" means the period during which Daily Rates are in effect for the 2004 Series A Bonds.

"Date of Delivery" means April 29, 2004.

"Debt Service Reserve Fund Surety Bond" shall mean the surety bond initially deposited into the 2004 Series A Account of the Debt Service Reserve Fund on the date of issuance and delivery of the 2004 Series A Bonds, issued by MBIA Insurance Corporation, and any replacement surety bond issued in substitution therefor.

"Defeasance Obligations" shall mean with respect to the 2004 Series A Bonds, any of the following which are permitted under the Act:

1. Cash.
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – "SLGS").
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.
4. Resolution Funding Corp. (REFCORP) (only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable).

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

6. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

- a. U.S. Export-Import Bank (Eximbank)  
Direct obligations or fully guaranteed certificates of beneficial ownership;
- b. Farmers Home Administration (FmHA)  
Certificates of beneficial ownership;
- c. Federal Financing Bank;
- d. General Services Administration  
Participation certificates;
- e. U.S. Maritime Administration  
Guaranteed Title XI financing;
- f. U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. government guaranteed debentures  
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds.

"Expiration Date" means the date upon which the Liquidity Provider's obligation to purchase 2004 Series A Bonds under the Liquidity Facility is scheduled to expire (taking into account any extensions of the Expiration Date) in accordance with its terms, other than by any reason resulting in a Termination Date.

"Fixed Rate" means a non-variable interest rate or rates to maturity established in accordance with Sections 2.03(h) and 2.04.

"Initial Period" means the period beginning on the Date of Delivery through and including May 31, 2004 in connection with the 2004 Series A Bonds.

"Insurance Agreement" means collectively, the Insurance and Reimbursement Agreement and the Financial Guaranty Agreement dated the Date of Delivery by and between the Commission and the Bond Insurer.

"Interest Payment Date" means:

(a) with respect to ARCs, each date defined as such in the ARCs Provisions and any day that is a Conversion Date from an ARCs Rate Period;

(b) with respect to 2004 Series A Bonds other than ARCs and Liquidity Provider Bonds:

(i) as to Weekly Rate Bonds bearing interest during the Initial Period, June 1, 2004 and, thereafter, as to Daily Rate Bonds and Weekly Rate Bonds, the first Business Day of each calendar month, any day that is a Conversion Date from a Daily Rate Period or a Weekly Rate Period, as appropriate, and the maturity date for the 2004 Series A Bonds;

(ii) as to Short-Term Rate Bonds, the first Business Day after the last day of each Short-Term Interest Period and any day that is a Conversion Date from Short-Term Rate Bonds;

(iii) as to Long-Term Rate Bonds, each March 1 and September 1 and any day that is a Conversion Date from a Long-Term Rate Period; and

(iv) as to Fixed Rate Bonds, each March 1 and September 1 through and including the maturity date for the 2004 Series A Bonds; and

(c) with respect to Liquidity Provider Bonds, the first Business Day of each calendar month.

"Interest Rate Period" means (i) an ARCs Rate Period (comprised of separate ARCs Interest Periods), (ii) a Daily Rate Period (comprised of separate Daily Interest Periods), (iii) a Weekly Rate Period (comprised of separate Weekly Interest Periods), (iv) a Short-Term Rate (comprised of separate Short-Term Interest Periods), (v) a Long-Term Rate Period (comprised of separate Long-Term Interest Periods), or (vi) a Fixed Rate Period.

"Liquidity Account" means the account by that name in the Purchase Fund established pursuant to Section 3.07(a).

"Liquidity Facility" means, with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, any standby bond purchase agreement, letter of credit, line of credit, insurance policy or other similar agreement, and any related

reimbursement agreement, in each case, acceptable to the Bond Insurer, among the Liquidity Provider, the Commission and the Tender Agent, then in effect providing for the payment of the Purchase Price due on the 2004 Series A Bonds on the applicable Purchase Dates, as the same may from time to time be amended or supplemented in accordance with its terms and the terms of this First Supplemental Indenture .

"Liquidity Facility Request" shall have the meaning assigned to that term in Section 3.07(c).

"Liquidity Provider" means any commercial bank, other financial institution, the Commission (if the Commission is providing liquidity for any 2004 Series A Bonds itself) or other institution issuing a Liquidity Facility then in effect in its capacity as issuer of that Liquidity Facility, acceptable to the Bond Insurer.

"Liquidity Provider Bondholder" means the Owner of any Liquidity Provider Bonds.

"Liquidity Provider Bonds" means 2004 Series A Bonds purchased by the Liquidity Provider pursuant to a Liquidity Facility and the terms hereof but excluding 2004 Series A Bonds no longer considered Liquidity Provider Bonds pursuant to the terms of the Liquidity Facility.

"Liquidity Provider Rate" means the interest rate(s) applicable from time to time to Liquidity Provider Bonds as determined in accordance with the Liquidity Facility; provided that no Liquidity Provider Rate shall exceed the Maximum Rate.

"Long-Term Interest Period" means each period described in Section 2.03(g) during which 2004 Series A Bonds accrue interest at a particular Long-Term Rate.

"Long-Term Rate" means the per annum interest rate to be determined on the 2004 Series A Bonds for a term of at least 12 months pursuant to Section 2.03(g).

"Long-Term Rate Bonds" means any 2004 Series A Bonds bearing interest at a Long-Term Rate.

"Long-Term Rate Period" means the period during which Long-Term Rates are in effect for the 2004 Series A Bonds.

"Market Agent" shall have the meaning set forth in the ARCs Provisions.

"Market Agent Agreement" shall have the meaning set forth in the ARCs Provisions.

"Maximum Rate" means (a) with respect to ARCs, the Maximum Rate determined in accordance with the ARCs Provisions, (b) with respect to Liquidity Provider Bonds, the lesser of 25.00% and the maximum rate permitted by law, and (c) with respect to any 2004 Series A Bonds other than ARCs or Liquidity Provider Bonds, the lesser of 12% per annum or the maximum rate utilized to determine the amount available under the Liquidity Facility, if any.

"Original Purchaser" means UBS Financial Services Inc., New York, New York, and any other purchasers listed as such in the Purchase Contract.

"Payment Default" means an Event of Default described in Section 701(i) or (ii) of the Indenture or failure by the Bond Insurer to make payment of interest on, premium, if any, and principal of the 2004 Series A Bonds to Holders when due.

"Permitted Investments" shall have the meaning set forth in Exhibit C hereto.

"Person" means any natural person, firm, joint venture, association, partnership, business, trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Prevailing Market Conditions" means, to the extent relevant (in the professional judgment of the Remarketing Agent) at the time of establishment of a rate or rates for 2004 Series A Bonds as provided in Section 2.03, (a) interest rates on comparable securities then being issued and traded, (b) other financial market rates and indices that may have a bearing on rates of interest; (c) general financial market conditions (including then current forward supply figures) that may have a bearing on rates of interest, and (d) the financial condition, results of operation and credit standing of the Commission, the Liquidity Provider and/or the Bond Insurer to the extent such standing has a bearing on rates of interest.

"Prime Rate" means the rate from time to time publicly announced by the Trustee's primary commercial banking affiliate as its "prime rate" or "base rate."

"Purchase Contract" means the Purchase Contract among the Commission, the Commission and the Original Purchaser with respect to the 2004 Series A Bonds.

"Purchase Date" means each date on which 2004 Series A Bonds are subject to optional or mandatory purchase pursuant to Section 3.06 or Section 3.08.

"Purchase Fund" means the fund by that name created by Section 3.07(a) and held by the Tender Agent.

"Purchase Price" means, with respect to a 2004 Series A Bond subject to purchase on a Purchase Date, an amount equal to the principal amount thereof plus (if such Purchase Date is not an Interest Payment Date therefor) accrued and unpaid interest thereon to such Purchase Date.

"Qualified Financial Institution" means a bank, trust company, national banking association, insurance company or other financial services company or entity, approved by the Bond Insurer and whose unsecured short-term debt obligations are rated in either of the two highest categories by Fitch, Moody's or S&P.

"Record Date" means (i) with respect to each Interest Payment Date for ARCs, the Record Date determined in accordance with the ARCs Provisions, (ii) with respect to each Interest Payment Date for Daily Rate Bonds, Weekly Rate Bonds or Short-Term Rate Bonds, the Business Day immediately preceding that Interest Payment Date, and (iii) with respect to each Interest Payment Date for Fixed Rate Bonds or Long-Term Rate Bonds, the last day of the month immediately preceding such Interest Payment Date.

"Remarketing Agent" means any firm at the time serving as Remarketing Agent pursuant to Section 3.09.

"Remarketing Agreement" means, with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, any agreement between the Commission and a Remarketing Agent whereby the Remarketing Agent agrees to perform the duties of the Remarketing Agent under this First Supplemental Indenture with respect to those 2004 Series A Bonds.

"Reserve Deposits" shall mean one or more of the following:

- (i) irrevocable, unexpired letters of credit consented to by the Bond Insurer issued by banking institutions the senior long-term debt obligations of which (or of the holding company of such banking institution) have (at the time of issue of such letter of credit) a rating within the two highest rating categories generally available to banking institutions by each Rating Agency rating such debt without regard to any gradations within such categories; or
- (ii) irrevocable and unconditional policies of insurance in full force and effect consented to by the Bond Insurer issued by municipal bond insurers the obligations insured by which are eligible for a rating at the time of issuance of such policies within the two highest rating categories available to insurers generally issuing such insurance by each Rating Agency rating such insurance without regard to any gradations within such categories, and, if rated by A.M. Best & Company, also rated in the highest rating category by A.M. Best & Company.

"Securities Depository" means, initially, The Depository Trust Company, New York, New York, and its successors and assigns and any successor Securities Depository.

"Short-Term Rate" means the per annum interest rate for the 2004 Series A Bonds during a Short-Term Rate Period determined on a periodic basis as provided in Section 2.03(f).

"Short-Term Rate Bonds" means any 2004 Series A Bonds bearing interest at a Short-Term Rate.

"Short-Term Rate Period" means the period during which Short-Term Rates are in effect for the 2004 Series A Bonds.

"Special Record Date" means the date fixed by the Trustee for the payment of Defaulted Interest.

"Substitute Bond Insurance Policy" means a substitute Bond Insurance Policy replacing a Bond Insurance Policy.

"Substitute Liquidity Facility" means a substitute Liquidity Facility replacing a Liquidity Facility.

"Substitution Date" means a date on which a Substitute Liquidity Facility is accepted by the Tender Agent and becomes effective with respect to the 2004 Series A Bonds, or a date on which an existing Liquidity Facility assigns all or a portion of its rights and/or obligations to an assignee Liquidity Facility, in each case, in accordance with Section 3.12(d).

"Tax Compliance Certificate" shall mean the Arbitrage and Use of Proceeds Certificate of the Commission delivered in connection with the 2004 Series A Bonds.

"Tender Agent" means, initially, the Trustee, and any successor Tender Agent as determined or designated under or pursuant to this First Supplemental Indenture .

"Termination Date" means the date upon which the Liquidity Provider's obligations to purchase 2004 Series A Bonds under the Liquidity Facility has terminated by reason of the fact that no 2004 Series A Bond remains Outstanding, conversion to a different rate period, a substitution of a Substitute Liquidity Facility or the deposit of a Substitute Liquidity Facility with the Trustee or the occurrence and continuance of an "event of default" or an "event of termination," under and as defined in the Liquidity Facility, that permits the Liquidity Provider to terminate its obligations thereunder.

"2003 Series 1 Notes" shall mean the Commission's Revenue Bond Anticipation Notes 2003 Series 1 dated October 23, 2003, due May 6, 2004.

"2004 Series A Bonds" shall mean the 2004 Series A Bonds authorized by Section 2.01 of this First Supplemental Indenture.

"2004 Series A Project Account" shall mean the account in the Project Fund so designated and created by Section 4.01 of this First Supplemental Indenture.

"2004 Series A Project" shall mean the acquisition, design, evaluation, inspection, construction, improvement, installation, rehabilitation, furnishing and equipping of (i) the Field's Point Wastewater Treatment Facilities, (ii) the Bucklin Point Wastewater Treatment Facilities, (iii) the wastewater collection and conveyance system, (iv) Nitrogen Removal Facilities, (v) Combined Sewer Overflow (CSO) Abatement Facilities, (vi) Water Quality Monitoring and Data Analysis, (vii) Biosolids Handling Facilities, (viii) Asset Management System, (ix) CSO Flow and Water Quality Monitoring, (x) Stormwater Attenuation, (xi) Facilities Planning, (xii) Pump Stations, (xiii) Floatables Control Facilities, (xiv) Geographic Information System (GIS) program, (xv) Capacity Management Operations and Maintenance (CMOM) Program, (xvi) Sewer System Capacity Analysis and (xvii) CSO Interceptors.

"Undelivered Bond Payment Account" means the account by that name in the Purchase Fund established pursuant to Section 3.07(a).

"Weekly Interest Period" means each period described in Section 2.03(e) during which the 2004 Series A Bonds bear interest at a particular Weekly Rate.

"Weekly Rate" means the per annum interest rate for the 2004 Series A Bonds during a Weekly Interest Period determined on a weekly basis as provided in Section 2.03(e).

"Weekly Rate Bonds" means 2004 Series A Bonds bearing interest at a Weekly Rate.

"Weekly Rate Period" means the Initial Period and, thereafter, the period during which Weekly Rates are in effect for the 2004 Series A Bonds.

Section 1.02 Authority. This First Supplemental Indenture is authorized pursuant to the Indenture.

## ARTICLE II

### DETAILS AND FORM OF 2004 SERIES A BONDS

Section 2.01 2004 Series A Bonds. (1) A Series of Weekly Rate Bonds, designated "Wastewater System Revenue Bonds, 2004 Series A" and constituting the first Series of Bonds under the Indenture, is hereby authorized to be issued pursuant to Section 204 of the Indenture in the aggregate Principal Amount of \$70,000,000.



(2) The purposes for which the 2004 Series A Bonds are issued are (a) to refund the Commission's 2003 Series 1 Notes, (b) to provide funds to pay all or a portion of the Cost of the 2004 Series A Project, (c) to provide funds for the purchase of a Debt Service Reserve Fund Surety Bond for deposit in the 2004 Series A Account of the Debt Service Reserve Fund to fund the Debt Service Reserve Fund Requirement for the 2004 Series A Bonds, and (d) to provide for all or a portion of the Cost of Issuance of the 2004 Series A Bonds, subject in all cases to the limitations and provisions provided in Article V of the Indenture and in the amounts determined by or pursuant to Article III hereof.

(3) The 2004 Series A Bonds shall be issued in Authorized Denominations and shall be lettered and numbered separately from one (1) consecutively upward in order of maturity preceded by the letter "R" and with such further or alternate designation as the Trustee shall determine with the approval of the Commission. In accordance with Section 303 of the Indenture, the 2004 Series A Bonds shall be authenticated prior to delivery by the Trustee, who is hereby appointed Authenticating Agent for the 2004 Series A Bonds. The Trustee is also hereby appointed registrar for the 2004 Series A Bonds.

(4) All 2004 Series A Bonds shall be dated and shall bear interest from their Date of Delivery. The 2004 Series A Bonds issued after the Date of Delivery shall be dated as of the date of authentication or such other date as the Trustee, in its discretion, deems appropriate. The 2004 Series A Bonds shall mature on September 1, 2034.

If any Interest Payment Date or Principal Payment Date is not a Business Day, interest or principal shall be paid on the next succeeding Business Day with no additional interest accruing.

(5) Except as otherwise provided in the Liquidity Facility with respect to Liquidity Provider Bonds, the Principal Amount of, Redemption Price of and interest on the 2004 Series A Bonds shall be payable by the Paying Agent for the 2004 Series A Bonds by check or draft drawn upon the Trustee and mailed to the address of the registered owner thereof as it appears on the registry books of the Commission determined as of the close of business on the applicable record date, provided, however, that payments of interest to any registered owner of \$1,000,000 or more aggregate principal amount of 2004 Series A Bonds may be paid at the election of the registered owner by wire transfer to the account number of such registered owner on file with the Trustee or to another account number of which the registered owner shall give notice to the Trustee in writing at least five days prior to the Interest Payment Date. Except as otherwise provided in the Liquidity Facility with respect to Liquidity Provider Bonds, the Principal Amount and Redemption Price of, and interest on the 2004 Series A Bonds shall also be payable at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as permitted by the Indenture.

Section 2.02 [Reserved].

Section 2.03 Determination of Interest Rates.

(a) *General*

(i) The 2004 Series A Bonds shall bear interest at ARCs Rates, Daily Rates, Weekly Rates, Short-Term Rates, Long-Term Rates or Fixed Rates, determined as provided in this Section, from and including their date or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for; provided that in no event will the interest rate on any 2004 Series A Bonds exceed the Maximum Rate. Except as otherwise provided in the Liquidity Facility with respect to Liquidity Provider Bonds, interest on the 2004 Series A Bonds shall be payable in arrears on each Interest Payment Date, commencing on the first Interest Payment Date after the date of original issuance of the 2004 Series A Bonds.

(ii) The 2004 Series A Bonds may operate at any time in any one Interest Rate Period, provided that all 2004 Series A Bonds shall operate in the same Interest Rate Period at any given time.

(iii) All 2004 Series A Bonds (except any Liquidity Provider Bonds) shall accrue interest at a Weekly Rate unless and until the Interest Rate Period for the 2004 Series A Bonds is converted to a different Interest Rate Period pursuant to Section 2.04.

(iv) The amount of interest payable with respect to any 2004 Series A Bonds on any Interest Payment Date shall be computed (1) during an ARCs Rate Period, in accordance with the ARCs Provisions, (2) during a Daily Interest Period, Weekly Interest Period or Short-Term Interest Period, on the basis of a 365- or 366-day year for the number of days actually elapsed, based on the calendar year in which the Daily Interest Period, the Weekly Interest Period or Short-Term Interest Period ends, and (3) during Fixed Rate Periods and Long-Term Rate Periods, on the basis of a 360-day year of twelve 30-day months.

(v) All determinations of interest rates, amounts of interest payable on the 2004 Series A Bonds and rate periods pursuant to this First Supplemental Indenture shall be conclusive and binding upon the Commission, the Trustee, the Tender Agent, the Paying Agent, the Remarketing Agent, the Bond Insurer, the Liquidity Provider and the Holders of the 2004 Series A Bonds to which such rates are applicable. The Commission, the Trustee, the Tender Agent, the Liquidity Provider, the Bond Insurer and the Remarketing Agent shall not be liable to any 2004 Series A Bondholder for failure to give any notice specified in this Section or for the failure of any 2004 Series A Bondholder to receive any such notice.

(b) *ARCs.* The interest rates for ARCs shall be determined in accordance with the ARCs Provisions. The Trustee shall notify the Commission of the ARCs Rate and the amount payable on each Interest Payment Date during an ARCs Rate Period in accordance with Section 109 of the ARCs Provisions.

(c) *Determination by Remarketing Agent:*

(1) The interest rate for Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds and Fixed Rate Bonds for each interest period shall be determined by the Remarketing Agent as the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause the 2004 Series A Bonds to have a market value as of the date of determination equal to the principal amount thereof, taking into account Prevailing Market Conditions, provided that in no event will the interest rate on any 2004 Series A Bonds exceed the Maximum Rate.

(2) In the event the Remarketing Agent fails for any reason to determine the interest rate for any interest period:

(A) The interest rate then in effect for Daily Rate Bonds, Weekly Rate Bonds or Short-Term Rate Bonds will remain in effect for the next interest period and each succeeding interest period thereafter until the Trustee is notified of a new Daily Rate, Weekly Rate or Short-Term Rate, as appropriate, determined by the Remarketing Agent.

(B) The interest rate then in effect for Long-Term Rate Bonds will be (i) converted to Short-Term Rates equal to 100% of the prime short-term rate (30 days) for the most recent date shown in the table captioned "Short-Term Tax-Exempt Yields" in the edition of *The Bond Buyer* or the dealer short-term rate (30 days) published in the most recent edition of *The Wall Street Journal*, or if *The Bond Buyer* or *The Wall Street Journal* is no longer published, any other published similar rate as is determined by the Trustee in its sole discretion to be appropriate, published on the day on which such rate is determined or, if such rate is not published on that day, the most recent publication of such rate, with Short-Term Interest Periods of 30 days, until the Trustee is notified of a new Short-Term Rate and Short-Term Interest Period determined for such 2004 Series A Bond by the Remarketing Agent but only if the Commission furnishes to the Trustee and Bond Insurer, if any, a Favorable Opinion of Bond Counsel, or (ii) if the opinion described in clause (i) is not furnished, provided that there is a Liquidity Facility in effect, converted to a Long-Term Rate for a Long-Term Interest Period ending on the day prior to the next succeeding September 1 which is more than 366 days later equal to 100% of the Kenny Information Services one-year tax-exempt index as communicated to the Trustee by Kenny Information Services, and if such index is not provided to the Trustee, equal to 70% of the closing yield for one-year

Treasury Bills shown in the table captioned "U.S. Securities Prices" in the edition of *The Bond Buyer* (or if *The Bond Buyer* or such table is no longer published, any other published similar rate as is determined by the Trustee in its sole discretion to be appropriate) published on the day on which such rate is determined, or if such rate is not published on that day, the most recent publication of such rate, until the Trustee is notified of a new Long-Term Rate and Long-Term Interest Period.

(3) Notice of the interest rate for each Daily Rate Bond, Weekly Rate Bond, Short-Term Rate Bond, Long-Term Rate Bond and Fixed Rate Bond shall be communicated by the Remarketing Agent to the Commission, the Trustee, the Liquidity Provider and the Bond Insurer by telecopier or other electronic telecommunication, or by telephone promptly confirmed in writing, (i) in the case of Daily Rate Bonds on the date such interest rate is determined by 11:00 a.m., New York City time, and (ii) in the case of Weekly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds or Fixed Rate Bonds, not later than 5:00 p.m., New York City time, on the date such interest rate is determined, and shall be available to 2004 Series A Bondholders after such time, from the Remarketing Agent at its Principal Offices and shall also be communicated by the Remarketing Agent to any 2004 Series A Bondholder upon request.

(d) *Daily Rates.*

(i) Whenever 2004 Series A Bonds are to bear interest accruing at a Daily Rate, Daily Interest Periods shall commence on each Business Day and shall extend to, but not include, the next succeeding Business Day.

(ii) The interest rate for each Daily Interest Period shall be effective from and including the commencement date thereof and shall remain in effect to, but not including, the next succeeding Business Day.

(iii) Each such interest rate shall be determined by the Remarketing Agent between 8:30 a.m. and 9:30 a.m., New York City time, on the commencement date of the Daily Interest Period to which it relates.

(e) *Weekly Rates.*

(i) Whenever the 2004 Series A Bonds are to bear interest accruing at a Weekly Rate, Weekly Interest Periods shall commence on Wednesday of each week and end on Tuesday of the following week; provided, however, that (a) the 2004 Series A Bonds shall initially bear interest at a Weekly Rate, with the initial Weekly Interest Period for the 2004 Series A Bonds commencing on the Date of Delivery of the 2004 Series A Bonds and ending on the next succeeding Tuesday; (b) in the case of a conversion to a Weekly Rate Period, the Weekly Interest Period for the 2004 Series A Bonds shall commence on the Conversion Date and end on the next succeeding Tuesday; and (c) in

the case of a conversion from a Weekly Rate to a Daily Rate, the last Weekly Interest Period prior to conversion shall end on the last day immediately preceding the Conversion Date.

(ii) The interest rate for each Weekly Interest Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof.

(iii) Each such interest rate shall be determined by the Remarketing Agent by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Weekly Interest Period to which it relates.

(f) *Short-Term Rates.* Short-Term Rates on, and Short-Term Interest Periods for, Short-Term Rate Bonds shall be determined as follows:

(1) Each Short-Term Interest Period shall be determined by the Remarketing Agent on the first Business Day of that Short-Term Interest Period as that Short-Term Interest Period which will, in the judgment of the Remarketing Agent, produce the greatest likelihood of the lowest net interest cost during the term of the 2004 Series A Bonds; provided that each Short-Term Interest Period (i) shall be from 1 to 270 days in length but shall not exceed the number of days of interest coverage provided by the Liquidity Facility minus five days, shall not extend beyond the date that is five days before the Expiration Date of the Liquidity Facility and shall not exceed the remaining number of days prior to the Conversion Date if the Remarketing Agent has given or received notice of any conversion to a different Interest Rate Period, (ii) shall commence on a Business Day (except in the case of a conversion to a Short-Term Rate Period, the initial Short-Term Interest Period shall commence on the Conversion Date), shall end on a day preceding a Business Day, and (iii) in any event shall end no later than the day preceding the maturity date for the 2004 Series A Bonds. The Remarketing Agent may, in the reasonable exercise of its judgment, determine a Short-Term Interest Period that result in a Short-Term Rate on the 2004 Series A Bonds that is higher than would be borne by 2004 Series A Bonds with a shorter Short-Term Interest Period in order to increase the likelihood of achieving the lowest net interest cost during the term of the 2004 Series A Bonds by assuring the effectiveness of such Short-Term Rate for a longer Short-Term Interest Period. The determination of a Short-Term Interest Period by the Remarketing Agent shall be based upon the relative market yields of 2004 Series A Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the reasonable exercise of the judgment of the Remarketing Agent are otherwise comparable to the 2004 Series A Bonds, or any fact or circumstance relating to the 2004 Series A Bonds or affecting the market for the 2004 Series A Bonds or affecting such other comparable securities in a manner that, in the reasonable exercise of the judgment of the Remarketing Agent, will affect the market for the 2004 Series A Bonds. The Remarketing Agent in its discretion, may consider such information and resources as it

deems appropriate in making the determinations described in this paragraph, including consultations with the Commission, but the Remarketing Agent's determination of the Short-Term Interest Period will be based solely upon the reasonable exercise of the Remarketing Agent's judgment.

(2) The interest rate for each Short-Term Interest Period shall be effective from and including the commencement date of that interest period and shall remain in effect through and including the last day thereof.

(3) All Short-Term Rate Bonds shall bear interest accruing at the same Short-Term Rate, and for the same Short-Term Interest Period.

(4) Each such interest rate shall be determined by the Remarketing Agent by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Short-Term Interest Period to which it relates.

(g) *Long-Term Rates.* A Long-Term Rate for Long-Term Rate Bonds shall be determined for each Long-Term Interest Period as follows:

(1) Long-Term Interest Periods shall commence on a Conversion Date and subsequently on a September 1 which is at least 12 calendar months after the Conversion Date to a Long-Term Rate Period, and end on the day preceding either the commencement date of the following Long-Term Interest Period or the Conversion Date on which a different Interest Rate Period shall become effective or the maturity date for the 2004 Series A Bonds.

(2) The Long-Term Rate for each Long-Term Interest Period shall be effective from and including the commencement date thereof and remain in effect to and including the last day thereof. Each such Long-Term Rate shall be determined on the Business Day immediately preceding the commencement date of such period.

(3) Long-Term Interest Periods (other than a Long-Term Interest Period extending to the maturity date for the 2004 Series A Bonds) shall not extend to a date beyond the fifth day next preceding the Expiration Date of the Liquidity Facility.

(4) The term of each Long-Term Interest Period shall be specified in writing by the Commission to the Remarketing Agent, the Trustee, the Tender Agent, the Liquidity Provider, if any, and the Bond Insurer at least 20 days before its commencement; provided that the term may not be more than one year if the term of the immediately preceding Long-Term Interest Period was one year, and the term shall not be one year if the term of the immediately preceding Long-Term Interest Period was more than one year, unless in each case the Commission has provided a Favorable Opinion of Bond Counsel to the Trustee, the Liquidity Provider, if any, and the Bond Insurer.

(5) The Long-Term Rate shall be the minimum rate which, in the sole judgment of the Remarketing Agent, will result in a sale of the 2004 Series A Bonds at a price equal to the principal amount thereof on the commencement date for the Long-Term Interest Period selected by the Commission in writing and delivered to the Remarketing Agent, the Trustee, the Tender Agent, the Liquidity Provider, if any, and the Bond Insurer as specified in paragraph (4) above.

(h) *Fixed Rate.* The Fixed Rate, and the schedule of principal payments for 2004 Series A Bonds bearing interest at the Fixed Rate, shall be determined as set forth in this Subsection (h). 2004 Series A Bonds bearing interest at a Fixed Rate may not be converted to any other type of Interest Rate Period pursuant to Section 2.04 and will not be covered by any Liquidity Facility.

The Fixed Rate Period shall commence on a Conversion Date and shall extend to the earlier of the date of redemption or the maturity date for the 2004 Series A Bonds. The Fixed Rate shall be set forth in the firm underwriting or purchase contract described in Section 2.04(c)(5).

Upon conversion, the firm of bond underwriters or recognized institutional investors who agree to underwrite or purchase the 2004 Series A Bonds in accordance with Section 2.04(c)(5) shall deliver to the Commission and the Trustee a certificate that includes (a) a schedule specifying the principal amount of 2004 Series A Bonds to be called for mandatory sinking fund redemption (or to mature in accordance with subparagraph (3) below) on September 1 of each year, commencing on the first September 1 occurring at least six months after the Fixed Rate Conversion Date, through and including the maturity date for the 2004 Series A Bonds, and (b) a schedule specifying the Interest Payment Dates through and including the maturity date for the 2004 Series A Bonds. In determining the amount of interest and principal that shall be payable on such dates, such firm of bond underwriters or institutional investors shall use the following guidelines:

(1) The interest rate on each 2004 Series A Bond then being converted shall be the lowest interest rate that will enable such 2004 Series A Bond upon conversion to be remarketed at par, assuming that all 2004 Series A Bonds then being converted will be subject to mandatory sinking fund redemption on September 1 of each year (commencing on the first September 1 occurring at least six months after the Conversion Date) through and including the maturity date for the 2004 Series A Bonds, all 2004 Series A Bonds shall pay interest semiannually on each Interest Payment Date, all 2004 Series A Bonds shall bear interest at the same rate (except as otherwise provided in subparagraph (3) below), and all 2004 Series A Bonds shall only be remarketed at par; and

(2) If the prior written consent of the Bond Insurer has been obtained, the schedule of principal payments shall be set to achieve annual level debt service (including both principal and interest), as nearly as practicable taking into account the minimum Authorized Denominations of the 2004 Series A Bonds, for all remaining periods ending

each year on September 1 (commencing on the first September 1 occurring at least six months after the Conversion Date) through and including the maturity date for 2004 Series A Bonds and, subject to subparagraph (3) below, the 2004 Series A Bonds shall be subject to mandatory sinking fund redemption in accordance with that schedule. If the prior written consent of the Bond Insurer is not received, all 2004 Series A Bonds shall be subject to mandatory sinking fund redemption (or serial maturities pursuant to subparagraph (3) below) in accordance with the applicable schedule set forth in Section 3.02(c).

(3) The foregoing subparagraphs (1) and (2) notwithstanding, upon provision of a Favorable Opinion of Bond Counsel, 2004 Series A Bonds that would otherwise be scheduled to be redeemed pursuant to mandatory sinking fund redemption provisions may be scheduled to mature on the same dates and the Remarketing Agent may establish more than one Fixed Rate to apply to the 2004 Series A Bonds being converted to Fixed Rate Bonds, in accordance with this Section, taking into account the scheduled mandatory redemption dates or serial maturity dates to be assigned to the 2004 Series A Bonds.

(4) If the designation referred to in subparagraph (1) above cannot be made or the Favorable Opinion of Bond Counsel described in subparagraph (3) above has not been delivered to the Trustee and the Bond Insurer by the Commission, then no conversion shall be effected.

(i) *Default Rate.* While there exists a Payment Default, the interest rate on the 2004 Series A Bonds will be the Maximum Rate; except as otherwise provided in the ARCs Provisions for ARCs.

(j) *[Reserved]*.

(k) *Liquidity Provider Bonds.* Notwithstanding the above provisions of this Section, Liquidity Provider Bonds shall bear interest at the lesser of the Liquidity Provider Rate or the Maximum Rate. The Liquidity Provider Rate shall be supplied in writing to the Trustee by the Liquidity Provider. Notwithstanding anything herein to the contrary, only the Liquidity Provider or any Liquidity Provider Bondholder may receive interest on any 2004 Series A Bonds at the Liquidity Provider Rate.

Section 2.04 Conversions Between Rate Periods. The Commission may elect to convert all of the 2004 Series A Bonds from one type of Interest Rate Period (other than from a Fixed Rate Period) to another type of Interest Rate Period as follows:

(a) *Notices by Commission.* The Commission shall give written notice of any proposed conversion to the Trustee not fewer than seven Business Days (fourteen Business Days in the case of a proposed conversion to a Short-Term Rate Period) prior to the date the notice to affected Holders must be given pursuant to Section 2.04(b) of the proposed conversion.



(b) *Notices by Trustee.* Upon receipt of the notice specified in Section 2.04(a) from the Commission, the Trustee shall promptly give written notice of the proposed conversion to the Tender Agent, the Remarketing Agent, the Bond Insurer, the Auction Agent, the Broker-Dealer, the Liquidity Provider and any rating service that has notified the Trustee in writing that it has established a rating for the 2004 Series A Bonds. The Trustee shall give notice (which may be combined, where applicable, with any notice required by Section 3.08), by first class mail of the proposed conversion to the affected Holders of 2004 Series A Bonds not less than 10 days before the proposed Conversion Date. Such notice shall state:

(1) the proposed Conversion Date and the proposed Interest Rate Period to be effective on such date;

(2) that the 2004 Series A Bonds will be subject to mandatory tender for purchase on the Conversion Date;

(3) the conditions, if any, to the conversion pursuant to subsection (c), and the consequences of such conditions not being fulfilled pursuant to subsection (d);

(4) if the 2004 Series A Bonds are in certificated form, information with respect to required delivery of Bond certificates and payment of the Purchase Price; and

(5) the new Interest Payment Dates and Record Dates.

(c) *Conditions to Conversion.* No conversion of Interest Rate Periods will become effective unless:

(1) If the conversion is from a Short-Term Rate Period, the Trustee has received, prior to the date on which notice of conversion is required to be given to Holders, written confirmation from the Remarketing Agent that it has not established and will not establish any Short-Term Interest Periods extending beyond the day before the Conversion Date; and

(2) If the conversion is either (A) from an ARCs Rate Period of one year or less, a Short-Term Rate Period, Weekly Rate Period or a Daily Rate Period to an ARCs Rate Period of more than one year, a Long-Term Rate Period or a Fixed Rate Period, or (B) from an ARCs Rate Period of more than one year, or a Long-Term Rate Period to an ARCs Rate Period of one year or less, a Short-Term Rate Period, a Weekly Rate Period or a Daily Rate Period, the Trustee and the Commission have been provided, no later than one day before the Conversion Date, with a Favorable Opinion of Bond Counsel, which opinion shall be confirmed in writing on the Conversion Date; and

(3) If the conversion is to a Daily Rate Period, a Weekly Rate Period, a Short-Term Rate Period or a Long-Term Rate Period, (A) the Commission shall have appointed (i) UBS Financial Services Inc. or another underwriting firm to act as the Remarketing

Agent for the 2004 Series A Bonds in accordance with Section 3.09 and (ii) a Qualified Financial Institution or, with the prior written consent of the Bond Insurer, the Commission to act as Liquidity Provider in accordance with Section 3.07; (B) the Commission shall have furnished to the Trustee and the Bond Insurer (i) an executed Remarketing Agreement whereby the Remarketing Agent agrees to perform the duties of the Remarketing Agent under this First Supplemental Indenture, (ii) a Liquidity Facility in form and substance reasonably satisfactory to the Remarketing Agent and the Bond Insurer, in an amount equal to the aggregate principal amount of all Outstanding 2004 Series A Bonds, plus an amount equal to at least 34 days interest (183 days interest if the conversion is to Long-Term Rate Bonds or, if the conversion is to Short-Term Rate Bonds, the maximum number of days of a Short-Term Interest Period, as provided in Section 2.03(f)(1)), plus five days, on all 2004 Series A Bonds at the Maximum Rate for the 2004 Series A Bonds other than Liquidity Provider Bonds, under which the Liquidity Provider is required to purchase 2004 Series A Bonds tendered for purchase in accordance with this First Supplemental Indenture, together with an Opinion of Counsel, to the effect that the Liquidity Facility has been duly authorized, executed and delivered by the Liquidity Provider, is a valid and binding and enforceable obligation of the Liquidity Provider (subject as to enforcement to customary exceptions regarding bankruptcy, insolvency and similar laws and principles of equity), and that the Liquidity Facility will not need to be registered as a "separate security" under the Securities Act of 1933, as amended; and

(4) If the conversion is to an ARCs Rate Period, (A) the Commission shall have appointed an Auction Agent, Broker-Dealer and Market Agent and (B) the Commission shall have furnished to the Trustee and the Bond Insurer an Auction Agency Agreement, a Broker-Dealer Agreement and a Market Agent Agreement [in substantially the forms initially executed in connection with the issuance of the 2004 Series A Bonds]; and

(5) If the conversion is to a Fixed Rate Period, the Commission shall notify in writing the Trustee of its irrevocable election to effect such a conversion, specifying in the notice the Conversion Date on which the Fixed Rate Period is to commence, and delivering with such notice a firm underwriting or purchase contract from a recognized firm of bond underwriters or recognized institutional investors, which can be the Remarketing Agent, to underwrite or purchase all of the 2004 Series A Bonds at a price of 100% of the principal amount thereof at an agreed upon interest rate which such underwriter or institutional investor certifies is the lowest rate that will permit the 2004 Series A Bonds to be sold at par on the first day of the Fixed Rate Period and containing a mandatory sinking fund redemption schedule prepared in accordance with Section 2.03(h). Upon receipt by the Trustee of such notice from the Commission, the Trustee shall promptly cause the same information contained in such notice to be delivered to the Tender Agent, the Remarketing Agent, the Bond Insurer, the Liquidity Provider and any rating service that has notified the Trustee in writing that it has established a rating for the 2004 Series A Bonds; and

(6) The conversion shall not occur unless the Conversion Date is a date on which the 2004 Series A Bonds being converted could be redeemed without premium pursuant to Section 3.02(a); and

(7) In addition to the requirements of Section 2.04(c)(3) above, if the conversion is to a Short-Term Rate Period, (A) the Commission must engage, at its expense, a commercial paper issuing and the paying agent (the "Issuing Agent"), reasonably acceptable to the Trustee and the Paying Agent, having access to the Securities Depository's electronic money market issuing and payment system and otherwise eligible to serve as an issuing and paying agent under the Securities Depository's policies and procedures for the issuance and payment of commercial paper; and (B) the Remarketing Agent must arrange for the execution and delivery to the Securities Depository of its required letter of representation for the eligibility of the 2004 Series A Bonds in the Short-Term Rate Period in the Securities Depository's book entry system and the provision of any needed CUSIP numbers; and (C) the Commission shall take all other action needed to comply with the Securities Depository's requirements applicable to the issuance and payment of the 2004 Series A Bonds while in the Short-Term Rate Period; and (D) the Commission shall enter into any amendment of this First Supplemental Indenture that is needed to comply with the Securities Depository's or any rating agency's requirements concerning the issuance and payment of the 2004 Series A Bonds in the Short-Term Rate Period.

The Commission shall give prompt written notice to S&P prior to any conversion described in subparagraphs (4) and (5) above. The Commission shall obtain the prior written consent of the Bond Insurer (which shall not be unreasonably withheld) prior to any conversion described in subparagraphs (1), (2), (3), (4) and (5) above, and during an Event of Default, the Bond Insurer may direct such conversion at its own discretion.

(d) *Failure of Conditions to Conversion.* In the event any condition precedent to a conversion is not fulfilled, (i) the Conversion Date shall not occur, (ii) the mandatory tender pursuant to Section 3.08(a)(i) shall not occur, (iii) any affected ARCs Rate Bond shall continue to be an ARCs Rate Bond and shall continue to be payable at the applicable ARCs Rate for the balance of the ARCs Interest Period then applicable thereto (without regard to the attempted conversion) and shall bear interest for the next succeeding ARCs Interest Period at (1) the applicable ARCs Rate determined in accordance with the ARCs Provisions if the Commission withdraws notice of the exercise of its option to effect conversion and the next succeeding Auction Date occurs more than two Business Days after the Business Day on which the Trustee receives notice of withdrawal of the conversion from the Commission or (2) the Maximum Rate determined by the Auction Agent as provided in the ARCs Provisions in all other cases, and (iv) any other affected 2004 Series A Bond shall continue in the then existing Interest Rate Period with the length of the interest period and the interest rate being determined in accordance with Section 2.03. Notice of withdrawal of a conversion notice shall be given by the Commission, the Trustee, the Remarketing Agent, the Tender Agent, the Bond Insurer, the Liquidity Provider and the Auction Agent (in the case of conversion of ARCs) by telephone,

promptly confirmed in writing, and shall thereafter be promptly given to the Bondholders by the Trustee by first-class mail. No failure or cancellation of conversion pursuant to this subsection (d) shall constitute an Event of Default.

Section 2.05 Prepayment. 2004 Series A Bonds are subject to redemption, optional tender and mandatory tender as described in Article III of this First Supplemental Indenture and in Exhibit B hereto in the case of ARCs Rate Bonds.

Section 2.06 Form of 2004 Series A Bonds. Subject to the provisions of the Indenture, the form and tenor of the 2004 Series A Bonds shall be substantially as follows, with such insertions, omissions, and variations as may be required or permitted by the Indenture.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNITED STATES OF AMERICA  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
NARRAGANSETT BAY COMMISSION

WASTEWATER SYSTEM REVENUE BOND, 2004 SERIES A

No. R-1

CUSIP:

PRINCIPAL AMOUNT: SEVENTY MILLION DOLLARS (\$70,000,000)

MATURITY DATE: September 1, 2034

INTEREST RATE: Variable (as provided herein)

ORIGINAL ISSUE DATE: April 29, 2004

REGISTRATION DATE: April 29, 2004

REGISTERED OWNER: Cede & Co.

The Narragansett Bay Commission (herein called the "Commission"), for value received, hereby promises to pay to the Registered Owner, or registered assigns, the Principal Amount, with interest meantime, payable from the Original Issue Date at the Interest Rate on such Principal Amount from the most recent Interest Payment Date to which interest has been paid or provided for or, if no interest has been paid, from the Original Issue Date or, if the Registration Date of this bond is subsequent to the record date for payment of any installment of interest and on or prior to the Interest Payment Date therefor, and if interest is paid to such date, from such Interest Payment Date, payable on each Interest Payment Date as described in the Indenture (defined below). If any Interest Payment Date or Principal Payment Date is not a Business Day, interest or principal shall be paid on the next succeeding Business Day as defined in the Indenture hereinafter mentioned, with no additional interest accruing. The principal or redemption price of and interest on this bond are payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts. The

principal of and redemption premium, if any, on this Bond shall be payable by check or draft to the Registered Owner at the maturity or redemption date hereof upon presentation and surrender of this Bond at the Principal Office of the Trustee. The interest payable on this Bond on any Interest Payment Date shall be paid by the Trustee to the Registered Owner appearing on the registration books of the Commission (the "Bond Register") maintained by the Trustee, as Bond Registrar, at the close of business on the Record Date for such interest next preceding such Interest Payment Date and shall be paid (1) by check or draft of the Trustee mailed on the applicable Interest Payment Date to such Registered Owner at his address as it appears on such Bond Register or at such other address furnished in writing by such Registered Owner to the Trustee or (2) by electronic transfer in immediately available funds, if the Bonds are held by The Depository Trust Company or another securities depository, or at the written request addressed to the Trustee by any Holder of Bonds in the aggregate principal amount of at least \$1,000,000 such request to be signed by such Holder, containing the name of the bank (which shall be in the continental United States), its address, its ABA routing number, the name and account number to which credit shall be made and an acknowledgment that an electronic transfer fee is payable, and to be filed with the Trustee no later than ten Business Days before the applicable Record Date preceding such Interest Payment Date. Interest on Short-Term Rate Bonds shall be paid only upon presentation and surrender of those Bonds. Interest on any Liquidity Provider Bond that ceases to be a Liquidity Provider Bond during an interest period shall be paid to the Person who is the Holder at the close of business on the Regular Record Date at the rate borne by Bonds other than Liquidity Provider Bonds.

THE PRINCIPAL OF OR REDEMPTION PRICE AND INTEREST ON THE BONDS ARE PAYABLE ONLY FROM THE REVENUES OR ASSETS OF THE ISSUER PLEDGED THEREFOR AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION OF THE STATE SHALL BE OBLIGATED TO PAY THIS BOND. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THIS BOND.

This bond is one of a duly authorized issue of bonds of the Commission (herein called the "Bonds"), issued and to be issued pursuant to Chapter 25 of Title 46 of the General Laws of the State of Rhode Island, 1956 (1996 Reenactment) as amended (the "Act") and under and pursuant to a Trust Indenture by and between the Commission and the Trustee dated as of April 15, 2004, as amended and supplemented by a First Supplemental Indenture dated as of April 15, 2004 (the Trust Indenture and First Supplemental Indenture are collectively referred to herein as the "Indenture"). As provided in the Indenture, Bonds may be issued from time to time in one or more series in various principal amounts, may mature at different times, may bear interest at different rates, and may otherwise vary as provided in the Indenture. Except as provided in the Indenture, the aggregate principal amount of Bonds which may be issued thereunder is not limited and all Bonds issued and to be issued under said Indenture are and will be equally secured by the pledge and covenants provided therein.

This bond is a general obligation of the Commission, to which its full faith and credit are pledged. The Commission has also pledged to the payment of the principal and redemption price of and interest on the Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, the proceeds of the Bonds, all Revenues of the Commission (as defined in the Indenture), and all moneys, securities and other amounts in all funds and accounts established by or pursuant to the Indenture, except the Operation and Maintenance Fund, the Rebate Fund, the Purchase Fund, if any, and the Unrestricted Fund of the Commission.

This bond is one of a series of Bonds designated as "Wastewater System Revenue Bonds, 2004 Series A" (herein called the "2004 Series A Bonds"), issued under the Indenture, and limited to the aggregate principal amount of \$70,000,000. Copies of the Indenture are on file at the office of the Commission and at the principal corporate trust office of the Trustee and reference to the Indenture and any supplements thereto and to the Act is made for a description of the pledge securing the Bonds and covenants relating thereto, the manner of enforcement of the pledge, the rights and remedies of the Registered Owners of the Bonds with respect thereto, the terms and conditions upon which the Bonds are issued and may be issued thereunder, the conditions upon which the Indenture may be amended with or without the consent of the Registered Owners of the Bonds, and the terms upon which Bonds may no longer be secured by the Indenture.

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

The Bonds shall bear interest at an ARCs Rate, Daily Rate, Weekly Rate, Short-Term Rate, Long-Term Rate or Fixed Rate, determined as provided in the Supplemental Indenture, from and including their date or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for; provided that in no event will the interest rate on any Bonds exceed the Maximum Rate. The Bonds may operate at any time in any one Interest Rate Period, provided that all Bonds shall operate in the same Interest Rate Period at any given time. All Bonds shall accrue interest at a Weekly Rate on the date of original issuance and thereafter in accordance with the Supplemental Indenture unless and until the Interest Rate Period for the Bonds is converted to a different Interest Rate Period pursuant to the Supplemental Indenture. Interest on the Bonds shall be payable in arrears on each Interest Payment Date, commencing on the first Interest Payment Date after the date of original issuance of the Bonds. The amount of interest payable with respect to any Bonds on any Interest Payment Date shall be computed (1) during an ARCs Rate Period, in accordance with the Auction Procedures (as defined in the Supplemental Indenture), (2) during Daily Interest Periods, Weekly Interest Periods or Short-Term Interest Periods, on the basis of a 365- or 366-day year for the number of days actually elapsed, based on the calendar year in which the Daily Interest Period, Weekly Interest Period or Short-Term Interest Period ends, and (3) during a Fixed Rate Period and a Long-Term Rate Period, on the basis of a 360-day year of twelve 30-day months.

The Bonds are subject to optional redemption prior to their stated maturity as provided in the Indenture.

The Bonds are subject to mandatory tender by the Holders thereof for purchase as provided in the Indenture. In addition, while the bonds bear interest at Daily Rates or Weekly Rates, the Holders thereof, at their option, may also tender their Bonds for purchase as provided in the Indenture.

This bond is transferable, as provided in the Indenture, only upon the books of the Commission at the Principal Office of the Trustee by the Registered Owner hereof in person or by his attorney duly authorized in writing, upon surrender hereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Registered Owner or his duly authorized attorney, and thereupon the Commission shall issue in the name of the transferee a new registered Bond or Bonds of the same aggregate principal amount, interest rate and maturity as the surrendered Bond, as provided in the Indenture, and upon the payment of the charges therein prescribed. This Bond may also be exchanged, alone or with other Bonds of the same series, interest rate and maturity, at the Principal Office of the Trustee, for a new Bond or Bonds of the same aggregate principal amount, interest rate and maturity, without transfer to a new registered owner, as provided in the Indenture and upon the payment of the charges therein prescribed. The Bonds are issuable only in denominations of \$100,000 or any integral multiple thereof.

The Commission shall not be obligated to make any transfer or exchange of this bond between a record date and an Interest Payment Date.

No recourse shall be had for the payment of the principal or redemption price of or the interest on the Bonds or for any claim based thereon or on the Indenture against any member, officer or employee of the Commission or any person executing the Bonds.

It is hereby certified and recited that all conditions, acts and things required by the Constitution or statutes of the State or the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of this bond, exist, have happened and have been performed and that the issue of this bond, together with all other indebtedness of the Commission, is within every debt and other limit prescribed by law.

This Bond shall not be entitled to any security, right or benefit under the Indenture or be valid or obligatory for any purpose, unless the certificate of authentication hereon has been duly executed by the Trustee.



IN WITNESS WHEREOF, the Narragansett Bay Commission has caused this bond to be executed in its name by the annual or facsimile signature of an authorized officer of the Commission and its corporate seal (or a facsimile thereof) to be affixed, imprinted, engraved or otherwise reproduced hereon and countersigned by the manual or facsimile signature of another authorized officer of the Commission.

(Seal)

NARRAGANSETT BAY COMMISSION

By: \_\_\_\_\_  
Authorized Officer

Attested:

By: \_\_\_\_\_  
Authorized Officer

[STATEMENT OF INSURANCE]

[FORM OF BOND COUNSEL OPINION]

CERTIFICATE OF AUTHENTICATION

This Bond is one of the 2004 Series A Bonds described in the within-mentioned  
Indenture.

J.P. MORGAN TRUST COMPANY,  
NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers this bond

to \_\_\_\_\_

\_\_\_\_\_  
(Name and Address of Assignee)

\_\_\_\_\_  
(Social Security or other Identifying Number of Assignee)

and irrevocably appoints \_\_\_\_\_  
attorney-in-fact to transfer it on the books kept for registration of this bond with full power of  
substitution.

Dated: \_\_\_\_\_

\_\_\_\_\_  
NOTE: The signature to this assignment must  
correspond with the name as written on the  
face of the bond without alteration,  
enlargement or other change.

Signature Guaranteed:

\_\_\_\_\_  
Participant in a Recognized Signature  
Guaranty Medallion Program

By: \_\_\_\_\_  
Authorized Signature

## ARTICLE III

## REDEMPTION AND TENDER OF 2004 SERIES A BONDS

Section 3.01 Redemption of 2004 Series A Bonds Generally. The 2004 Series A Bonds shall be subject to redemption prior to maturity in accordance with the terms and provisions set forth in this Article.

Section 3.02 Redemption of 2004 Series A Bonds.

(a) *Optional Redemption.* Provided no amounts are owed to the Bond Insurer under the terms of the Insurance Agreement or any other documents, the 2004 Series A Bonds are subject to optional redemption from Available Moneys held by the Trustee and available to be applied to the redemption of the 2004 Series A Bonds as follows:

(i) ARCs, Daily Rate Bonds and Weekly Rate Bonds are subject to redemption and payment prior to maturity, at the option of the Commission, in whole or in part on any date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

(ii) Short-Term Rate Bonds are subject to redemption and payment prior to maturity, at the option of the Commission, in whole or in part on any Interest Payment Date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

(iii) Long-Term Rate Bonds are subject to redemption in whole or in part, on the day after the end of each Long-Term Interest Period, at the option of the Commission, at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

(iv) Long-Term Rate Bonds and Fixed Rate Bonds are subject to redemption and payment prior to maturity, at the option of the Commission, on and after the no-call period shown below, in whole or in part at any time at the respective redemption prices set out below, plus accrued interest thereon to the redemption date (unless an alternate optional redemption schedule is determined pursuant to this subparagraph (iv)):

<b>Fixed Rate Period or Long-Term Interest Period</b>	<b>No-Call Period</b>	<b>Premium</b>
Equal to or greater than 13 years	8 years	2% in first year, 1% in second year and 0% thereafter
Equal to or greater than 10 years but less than 13 years	5 years	2% in first year, 1% in second year and 0% thereafter

Equal to or greater than 7 years but less than 10 years	3 years	1.5% in first year, 0.5% in second year and 0% thereafter
Equal to or greater than 4 years but less than 7 years	3 years	1% in first year, 0% thereafter
Equal to or greater than 2 years but less than 4 years	1 year	0.5% in the first year, 0% thereafter
greater than 1 year but less than 2 years	1 year	0% at all times
One year	non-callable	--

Notwithstanding the foregoing, if before the first day of a Long-Term Interest Period or Fixed Rate Period an alternate optional redemption schedule is delivered by the Commission to the Trustee setting forth redemption dates and redemption prices during that Fixed Rate Period or Long-Term Interest Period together with a certificate of the Remarketing Agent certifying that the redemption terms set forth therein are advantageous for the Remarketing Agent to remarket those 2004 Series A Bonds for that period and a Favorable Opinion of Bond Counsel, then the 2004 Series A Bonds shall be subject to redemption during that period in accordance with that optional redemption schedule rather than the schedule set forth above.

(v) Under this First Supplemental Indenture, no 2004 Series A Bonds may be called for purchase by the Commission in lieu of optional redemption without the express written consent of the Bond Insurer.

(b) *Extraordinary Optional Redemption.* The 2004 Series A Bonds are subject to redemption and payment prior to the stated maturity thereof, from Available Moneys held by the Trustee and available to be applied to the redemption of the 2004 Series A Bonds, at the option of the Commission, in whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium, upon the occurrence of any of the following events:

(1) all or a substantial portion of the Commission's facilities are damaged or destroyed by fire or other casualty, or title to, or the temporary use of, all or a substantial portion of such facilities are condemned or taken for any public or quasi-public use by any authority exercising or threatening the exercise of the power of eminent domain or title thereto is found to be deficient, to such extent that in the determination of the Commission (A) such facilities cannot be reasonably restored or replaced to the condition thereof preceding such event, or (B) the Commission is thereby prevented from carrying on its normal operations of such facilities, or (C) the cost of restoration or replacement thereof would exceed the Net Proceeds of any casualty insurance, title insurance, condemnation awards or sale under threat of condemnation with respect thereto; or

(2) as a result of any changes in the Constitution of the State or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final direction, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Commission in good faith, this First Supplemental Indenture becomes void or unenforceable or impossible of performance.

(c) [Reserved.]

(d) *Redemption of Liquidity Provider Bonds.* All Bonds that are Liquidity Provider Bonds on the Expiration Date or the Termination Date, as applicable, are required to be redeemed by the Commission in ten (10) semiannual installments at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date at the Liquidity Provider Rate on March 1 and September 1 of each year, commencing with the first March 1 or September 1 that is at least four (4) months following the Expiration Date or the Termination Date, as applicable. The principal amount of Liquidity Provider Bonds to be redeemed on the first nine (9) such dates shall be the authorized denomination, determined as of the Expiration Date or the Termination Date, as applicable, which will as nearly as possible be equal to one-tenth of the principal amount of Liquidity Provider Bonds on the Expiration Date or the Termination Date, as applicable, with an amount equal to all outstanding principal of the Liquidity Provider Bonds being redeemed on the tenth semiannual redemption date.

(e) [Reserved.]

### Section 3.03 Selection of 2004 Series A Bonds for Redemption.

Notwithstanding Section 404 of the Indenture to the contrary, in the event of a partial redemption of 2004 Series A Bonds, Liquidity Provider Bonds shall be selected for redemption prior to any other 2004 Series A Bonds.

### Section 3.04 [Reserved]

Section 3.05 Tender Agent. There shall be a Tender Agent appointed by the Commission for the 2004 Series A Bonds as provided in this Section at all times that any 2004 Series A Bonds are Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds. The Tender Agent shall be a commercial bank, national association or trust company organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to exercise corporate trust powers, subject to supervision or examination by federal or state authority, and authorized to perform all of the duties imposed upon it by the Indenture and this First Supplemental Indenture, and having a combined capital and surplus of at least \$75,000,000. If such corporation or association publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation or association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee shall be appointed by the Commission as the initial Tender Agent hereunder. The Trustee hereby accepts its appointment as the initial Tender Agent and agrees to perform the duties imposed upon the Tender Agent by this First Supplemental Indenture, but only upon the terms and conditions set forth herein, including the following:

(a) hold all 2004 Series A Bonds delivered to it hereunder in trust for the benefit of the respective Holders which shall have so delivered such 2004 Series A Bonds until moneys representing the Purchase Price of such 2004 Series A Bonds shall have been delivered to or for the account of or to the order of such Holders;

(b) hold all moneys delivered to it hereunder for the purchase of 2004 Series A Bonds in trust solely for the benefit of the Person which shall have so delivered such moneys until the 2004 Series A Bonds purchased with such moneys shall have been delivered to or for the account of such Person;

(c) hold all moneys, other than proceeds of payments under the Liquidity Facility, delivered to it hereunder for the purchase of 2004 Series A Bonds as agent of, and in escrow for the exclusive benefit of, the Person which shall have so delivered such moneys until the 2004 Series A Bonds purchased with such moneys shall have been delivered to or for the account of such Person;

(d) hold all moneys delivered to it hereunder from payments under the Liquidity Facility for the purchase of 2004 Series A Bonds as agent of, and in escrow for the exclusive benefit of, the 2004 Series A Bondholders who shall deliver 2004 Series A Bonds to it for purchase until the 2004 Series A Bonds purchased with such moneys shall have been delivered to or for the account of the Liquidity Provider;

(e) keep such books and records as shall be consistent with customary corporate trust industry practice that shall accurately reflect the transactions hereunder and to make such books and records available for inspection by the Commission, the Trustee, the Remarketing Agent, the Bond Insurer and the Liquidity Provider during normal business hours upon reasonable prior written notice;

(f) hold all Liquidity Provider Bonds delivered to it hereunder as agent of, and in escrow for the benefit of, the Liquidity Provider;

(g) deliver any notices required by this First Supplemental Indenture to be delivered by the Tender Agent; and

(h) perform all other duties of the Tender Agent under this First Supplemental Indenture.

The Tender Agent shall be entitled to reasonable compensation for its services as Tender Agent as agreed upon with the Commission, from moneys other than those designated in subparagraphs (b), (c) and (d) above.

The Tender Agent at any time may resign and be discharged of the duties and obligations imposed upon the Tender Agent by this First Supplemental Indenture, by giving written notice thereof to the Commission, the Trustee, the Remarketing Agent, the Bond Insurer and the Liquidity Provider at least 30 days prior to the effective date of such resignation. The Tender Agent shall resign immediately at any time that it shall cease to be eligible in accordance with the provisions of this Section.

The Tender Agent may be removed at any time by the Trustee by an instrument in writing delivered to the Tender Agent, the Commission, the Trustee, the Remarketing Agent, the Liquidity Provider and the Bond Insurer.

If the Tender Agent shall resign, be removed or become incapable of acting for any cause, the Trustee, with the written consent of the Commission, the Bond Insurer and the Liquidity Provider (which consents shall not be unreasonably withheld), shall promptly appoint a successor Tender Agent by an instrument in writing delivered to the Commission, the Remarketing Agent, the Liquidity Provider, the Bond Insurer and the retiring Tender Agent. Every such successor Tender Agent appointed pursuant to the provisions of this Section shall meet the eligibility requirements of this Section. No successor Tender Agent shall accept its appointment unless at the time of such acceptance such successor Tender Agent shall be qualified and eligible under this Article.

Every successor Tender Agent appointed hereunder shall execute and deliver to the Commission, the Trustee, the Remarketing Agent, the Liquidity Provider, the Bond Insurer and the retiring Tender Agent an instrument accepting such appointment, designating its Principal Office and accepting the duties and obligations imposed upon it hereunder. No resignation or removal of the Tender Agent and no appointment of a successor Tender Agent pursuant to this Section shall become effective until the acceptance of appointment by the successor Tender Agent and the transfer of the Liquidity Facility from the retiring Tender Agent to the successor Tender Agent hereunder.

The Trustee shall give notice of each resignation and each removal of the Tender Agent and each appointment of a successor Tender Agent by mailing written notice of such event by first class mail, within 30 days of the resignation or removal of the Tender Agent or the appointment of a successor Tender Agent, to the Commission, the Liquidity Provider, the Bond Insurer, the Remarketing Agent, each rating service at the time providing a rating for the 2004 Series A Bonds and the Holders of 2004 Series A Bonds as their names and addresses appear in the Bond Register maintained by the Trustee. Each notice shall include the name of the successor Tender Agent and the address of its principal corporate trust office.



In the event of the resignation or removal of the Tender Agent, and the appointment of a successor Tender Agent, the retiring Tender Agent shall pay over, assign and deliver any moneys and 2004 Series A Bonds held by it in such capacity to its successor. The successor Tender Agent shall execute a Liquidity Facility with the Commission and the Liquidity Provider.

In the event that the Tender Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Tender Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Trustee shall not have appointed a successor as Tender Agent, the Trustee, notwithstanding the provisions of the third paragraph of this Section, shall ipso facto be deemed to be the Tender Agent for all purposes of this First Supplemental Indenture until the appointment by the Trustee of the successor Tender Agent.

Any corporation or association into which the Tender Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any merger, conversion or consolidation to which the Tender Agent in its individual capacity shall be a party, or any corporation or association to which all or substantially all the corporate trust business of the Tender Agent in its individual capacity may be sold or otherwise transferred, shall be the Tender Agent under this First Supplemental Indenture without further act.

Section 3.06 Optional Tenders During Daily Rate Periods and Weekly Rate Periods.

(a) Holders of Daily Rate Bonds or Weekly Rate Bonds may elect to have their Daily Rate Bonds or Weekly Rate Bonds (other than Commission Bonds or Liquidity Provider Bonds), or portions thereof in Authorized Denominations, purchased at the Purchase Price on the following Purchase Dates and upon the giving of the following telephonic, telecopy or written notices meeting the further requirements set forth in Subsection (b):

(i) Daily Rate Bonds (other than Commission Bonds or Liquidity Provider Bonds) may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon telephonic, telecopy or written notice of tender to the Tender Agent and the Remarketing Agent not later than 9:30 a.m., New York City time, on the designated Purchase Date.

(ii) Weekly Rate Bonds (other than Commission Bonds or Liquidity Provider Bonds) may be tendered for purchase at the Purchase Price payable in immediately available funds on any Business Day upon delivery of a written notice of tender to the Tender Agent and the Remarketing Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the designated Purchase Date.

(b) Each notice of tender:

(i) shall, in case of a written notice, be delivered to the Tender Agent and the Remarketing Agent at their Principal Offices and be in form satisfactory to the Tender Agent and the Remarketing Agent;

(ii) shall state, whether delivered in writing or by telephone or telecopier, (a) the principal amount of the Daily Rate Bond or Weekly Rate Bond to which the notice relates and the CUSIP number of that 2004 Series A Bond, (b) that the Holder irrevocably demands purchase of that 2004 Series A Bond or a specified portion thereof in an Authorized Denomination, (c) the Purchase Date on which that 2004 Series A Bond or portion thereof is to be purchased and (d) payment instructions with respect to the Purchase Price; and

(iii) shall automatically constitute, whether delivered in writing or by telephone or telecopier, (a) an irrevocable offer to sell the 2004 Series A Bond (or portion thereof) to which such notice relates on the Purchase Date to any purchaser selected by the Remarketing Agent (or to the Liquidity Provider in the case of purchases made with funds paid under the Liquidity Facility), at a price equal to the Purchase Price, (b) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such 2004 Series A Bond (or portion thereof) upon receipt by the Tender Agent of funds sufficient to pay the Purchase Price on the Purchase Date, (c) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the 2004 Series A Bond to be purchased in whole or in part for other 2004 Series A Bonds in an equal aggregate principal amount so as to facilitate the sale of that 2004 Series A Bond (or portion thereof to be purchased), (d) an acknowledgment that such Holder will have no further rights with respect to that 2004 Series A Bond (or portion thereof) upon deposit of an amount equal to the Purchase Price thereof with the Tender Agent on the Purchase Date, except for the right of such Holder to receive the Purchase Price upon surrender of that 2004 Series A Bond to the Tender Agent, and (e) an agreement of such Holder to deliver such Daily Rate Bonds or Weekly Rate Bonds, with all necessary endorsements for transfer and signature guarantees, to the Tender Agent at its Principal Office not later than 1:00 p.m., New York City time, on the Purchase Date.

The determination of the Tender Agent and the Remarketing Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing shall be conclusive and binding upon the Holder. The Tender Agent or the Remarketing Agent may waive any irregularity or nonconformity in any notice of tender.

(c) The right of 2004 Series A Bondholders to tender Daily Rate Bonds or Weekly Rate Bonds for purchase pursuant to this Section shall terminate upon the earliest of (i) the fifth day next preceding the Expiration Date unless on or prior to the fifth day next preceding the Expiration Date, the Expiration Date is extended), (ii) a Conversion Date for

conversion to an Interest Rate Period other than a Daily Rate Period or a Weekly Rate Period, and (iii) any other Termination Date not otherwise described in subsection (ii) hereof. The right of 2004 Series A Bondholders to tender Daily Rate Bonds or Weekly Rate Bonds for purchase pursuant to this Section may be terminated or suspended under the circumstances described in the Liquidity Facility.

(d) Notwithstanding anything to the contrary herein, all Daily Rate Bond or Weekly Rate Bonds as to which a written notice specifying the Purchase Date has been delivered pursuant to this Section (and which have not been tendered to the Tender Agent) shall be deemed tendered on the Purchase Date specified. From and after the specified Purchase Date of a 2004 Series A Bond or 2004 Series A Bonds tendered to the Tender Agent or deemed tendered pursuant to this Section, the former Holder of such a 2004 Series A Bond or 2004 Series A Bonds shall be entitled solely to the payment of the Purchase Price of such 2004 Series A Bond or 2004 Series A Bonds tendered or deemed tendered which Purchase Price shall be payable only as set forth in Section 3.07(d).

(e) The Tender Agent shall promptly return any notice of tender delivered pursuant to this Section (together with the 2004 Series A Bonds submitted therewith) that is incomplete or improperly completed or not delivered within the times required by this Section to the Person or Persons submitting such notice and 2004 Series A Bonds upon surrender of the receipt, if any, issued therefor.

(f) Notwithstanding the foregoing, if the 2004 Series A Bonds are held in a book-entry form at the Securities Depository, the right to optionally tender Daily Rate Bonds or Weekly Rate Bonds may be exercised by the beneficial owners of those 2004 Series A Bonds. Such right shall be exercised by delivery by a beneficial owner to the Remarketing Agent no later than the times specified in Subsection (a) of the notice described in Subsection (b) stating that such beneficial owner will cause its beneficial interest (or portion thereof in an Authorized Denomination) to be tendered, the amount of such interest to be tendered, the date on which such interest will be tendered and the identity of the Participant through which the beneficial owner maintains its interest. Upon delivery of such notice, the beneficial owner must make arrangements to have its beneficial ownership interest in the 2004 Series A Bonds being tendered to the Tender Agent to be transferred on the records of the Securities Depository to the Tender Agent at or prior to 1:00 p.m., New York City time, on the Purchase Date.

### Section 3.07 Purchase of 2004 Series A Bonds by Tender Agent.

(a) The Tender Agent shall establish a special trust fund to be designated the Purchase Fund (the "Purchase Fund"). Within the Purchase Fund, the Tender Agent shall establish four separate accounts to be designated the Remarketing Account, the Liquidity Account, the Commission Account and the Undelivered Bond Payment Account. Only the Tender Agent shall have any right of withdrawal from the Purchase Fund; and the Purchase Fund and such right of withdrawal shall be for the sole and exclusive benefit of the Holders of the

2004 Series A Bonds subject to purchase on Purchase Dates (and the Liquidity Provider to the extent provided in Subsection (e)); and the Commission shall have no legal, beneficial or equitable interest in the Purchase Fund. Notwithstanding any provisions of the Indenture or this Supplemental Indenture to the contrary, amounts on deposit in the Purchase Fund shall be held uninvested and without bearing interest. Amounts in a particular account of the Purchase Fund shall not be commingled with amounts in any other account of the Purchase Fund or with any other funds or accounts held by the Tender Agent or the Trustee. Any moneys received by the Tender Agent by reason of the remarketing by the Remarketing Agent of 2004 Series A Bonds subject to purchase on a Purchase Date shall be deposited by the Tender Agent in the Remarketing Account of the Purchase Fund and applied by the Tender Agent in accordance with Subsections (d) and (e). Any moneys received by the Tender Agent representing amounts paid by the Liquidity Provider under the Liquidity Facility for the purchase of 2004 Series A Bonds subject to purchase on a Purchase Date shall be deposited by the Tender Agent in the Liquidity Account of the Purchase Fund and applied by the Tender Agent in accordance with Subsections (d) and (e). Any moneys received by the Tender Agent representing amounts paid by the Commission for the purchase of 2004 Series A Bonds subject to purchase on a Purchase Date shall be deposited by the Tender Agent in the Commission Account of the Purchase Fund and applied by the Tender Agent in accordance with Subsections (d) and (e). Moneys shall be transferred to the Undelivered Bond Payment Account from the other accounts of the Purchase Fund or to the Liquidity Provider in accordance with Subsection (e); and moneys shall be applied from the Undelivered Bond Payment Account in accordance with Subsection (f).

(b) Upon receipt of any telephonic, telecopy or written notice of tender relating to Daily Rate Bonds, the Remarketing Agent shall notify the Tender Agent, the Commission and the Liquidity Provider by telephonic notice of the amount of such 2004 Series A Bonds to be tendered pursuant to such notice and the Remarketing Agent shall confirm such telephonic notice by telecopier or other telecommunications device by 10:00 a.m., New York City time, on the Purchase Date, with the Remarketing Agent including in such telephonic notice and the confirmation thereof the amount of the Purchase Price of such 2004 Series A Bonds and the portion, if any, thereof representing accrued and unpaid interest on such 2004 Series A Bonds to the Purchase Date. Upon receipt of written notice of tender relating to Weekly Rate Bonds, the Remarketing Agent shall, not later than 5:00 p.m., New York City time, on the next Business Day, send notice of such tender to the Commission and the Liquidity Provider by telecopier or other telecommunications device, with the Remarketing Agent including in such notice the amount of the Purchase Price of such 2004 Series A Bonds and the portion, if any, thereof representing accrued and unpaid interest on such 2004 Series A Bonds to the Purchase Date. Simultaneously with the giving (pursuant to Section 3.08(e)) of notice of any mandatory tender of 2004 Series A Bonds pursuant to Section 3.08(a), the Trustee shall give notice by telephone or telecopier, promptly confirmed by a written notice, to the Tender Agent, the Remarketing Agent, the Bond Insurer, the Liquidity Provider and the Commission specifying the Purchase Date, the aggregate principal amount and Purchase Price of 2004 Series A Bonds subject to mandatory tender on such Purchase Date, and the portion, if any, of such Purchase Price representing accrued and unpaid interest on such 2004 Series A Bonds to such Purchase Date.

(c) Not later than 11:30 a.m., New York City time, on each Purchase Date, the Tender Agent shall determine the amount, if any, by which the Purchase Price of the 2004 Series A Bonds to be purchased on such Purchase Date exceeds the amount of the proceeds of the remarketing of such 2004 Series A Bonds by the Remarketing Agent on deposit in the Remarketing Account of the Purchase Fund at such time; and

(i) if a Liquidity Facility is in effect on such Purchase Date, then (A) not later than 12:30 p.m., New York City time, on such Purchase Date, the Tender Agent shall request (such request being referred to as a "Liquidity Facility Request") the purchase by the Liquidity Provider under the Liquidity Facility, or the funding by the Liquidity Provider under the Liquidity Facility of moneys for the purchase, of 2004 Series A Bonds having a Purchase Price equal to the amount of such excess (by submitting to the Liquidity Provider in accordance with the Liquidity Facility all documents as are required for such purpose), and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Tender Agent shall deposit the proceeds of the Liquidity Facility Request received by the Tender Agent in the Liquidity Account of the Purchase Fund; or

(ii) if no Liquidity Facility is in effect on such Purchase Date, then (A) not later than 12:30 p.m., New York City time, on such Purchase Date, the Tender Agent shall notify the Commission that the amount of such excess is the amount payable by the Commission to the Tender Agent for purposes of causing the Tender Agent to purchase on behalf of the Commission Bonds having a Purchase Price equal to such excess, and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Tender Agent shall deposit the amount, if any, received by the Tender Agent from the Commission for such purpose in the Commission Account of the Purchase Fund.

(d) Not later than 3:00 p.m., New York City time, on each Purchase Date, the Tender Agent shall disburse the Purchase Price of 2004 Series A Bonds to be purchased on such Purchase Date to the Holders thereof (upon surrender thereof for payment of such Purchase Price), from the following sources and in the following order of priority:

(i) Moneys on deposit in the Remarketing Account of the Purchase Fund (representing the proceeds of the remarketing by the Remarketing Agent of such 2004 Series A Bonds);

(ii) If a Liquidity Facility is in effect on such Purchase Date, moneys on deposit in the Liquidity Account of the Purchase Fund (representing the proceeds of a Liquidity Facility Request); and

(iii) Moneys on deposit in the Commission Account (representing amounts paid by the Commission to the Tender Agent for the purchase of such 2004 Series A Bonds).

If the funds available (from the sources indicated above) for the purchase of 2004 Series A Bonds subject to purchase on a Purchase Date are insufficient to purchase all of the 2004 Series A Bonds subject to purchase on such Purchase Date (including Undelivered Bonds), then, no purchase of any 2004 Series A Bonds shall occur on such Purchase Date and, on such Purchase Date, the Tender Agent shall (i) return all of such 2004 Series A Bonds that were tendered to the Holders thereof, (ii) return all moneys received by the Tender Agent for the purchase of such 2004 Series A Bonds to the respective Persons that provided such moneys (in the respective amounts in which such moneys were so provided), and (iii) notify the Trustee of the foregoing. If the Liquidity Facility is in effect, no such failure to purchase 2004 Series A Bonds shall constitute an Event of Default.

(e) Any moneys remaining in the Remarketing Account, the Liquidity Account or the Commission Account and representing (but not exceeding) the Purchase Price of 2004 Series A Bonds subject to purchase on the applicable Purchase Date but not tendered and delivered for purchase on the applicable Purchase Date (following the payments described in subsection (d)) shall be transferred by the Tender Agent to the Undelivered Bond Payment Account not later than 3:30 p.m., New York City time, on the applicable Purchase Date (and retained therein, subject to subsection (a), for application in accordance with subsection (f)). Any moneys remaining in the Remarketing Account, the Liquidity Account and the Commission Account on a Purchase Date (after the payments described in subsection (d) and the transfer described in the preceding sentence of this subsection (e)) shall be wire transferred by the Tender Agent, in immediately available funds, prior to the close of business on such Purchase Date, to the Remarketing Agent, the Liquidity Provider and the Commission, respectively.

(f) Moneys transferred to the Undelivered Bond Payment Account of the Purchase Fund on any Purchase Date shall be applied, on or after such Purchase Date, by the Tender Agent to pay the Purchase Price of Undelivered Bonds in respect of which they were so transferred, upon the surrender of such 2004 Series A Bonds to the Tender Agent for such purpose.

### Section 3.08 Mandatory Purchase of 2004 Series A Bonds.

(a) All the 2004 Series A Bonds shall be subject to mandatory tender for purchase by the Tender Agent at the Purchase Price on the following Purchase Dates:

- (i) each Conversion Date;
- (ii) the first day after the last day of each Short-Term Interest Period;
- (iii) the first day after the last day of each Long-Term Interest Period;
- (iv) the fifth day next preceding each Expiration Date (unless, prior to the fifth day next preceding that Expiration Date, that Expiration Date is extended);

(v) each Substitution Date; and

(vi) any other Termination Date not otherwise described in this Subsection (a).

(b) 2004 Series A Bonds to be purchased pursuant to Subsection (a) shall be delivered by the Holders thereof to the Tender Agent (together with necessary assignments and endorsements) at or prior to 1:00 p.m., New York City time, on the applicable Purchase Date.

(c) Any 2004 Series A Bonds to be purchased by the Tender Agent pursuant to this Section that are not delivered for purchase on or prior to the Purchase Date, for which there has been irrevocably deposited in trust with the Trustee or the Tender Agent an amount sufficient to pay the Purchase Price of such 2004 Series A Bonds, shall be deemed to have been delivered to the Tender Agent for purchase, and the Holders of such 2004 Series A Bonds shall not be entitled to any payment (including any interest to accrue on or after the Purchase Date) other than the respective Purchase Prices of such 2004 Series A Bonds, and such 2004 Series A Bonds shall not be entitled to any benefits of this First Supplemental Indenture, except for payment of such Purchase Price out of the moneys deposited for such payment as aforesaid.

(d) In addition to any other requirements set forth in this First Supplemental Indenture, notices of mandatory tender mailed to 2004 Series A Bondholders shall:

(i) specify the proposed Purchase Date and the event which gives rise to the proposed Purchase Date;

(ii) state that such 2004 Series A Bonds shall be subject to mandatory tender for purchase on such date;

(iii) state that Holders may not elect to retain 2004 Series A Bonds subject to mandatory tender;

(iv) state that all 2004 Series A Bonds subject to mandatory tender shall be required to be delivered to the designated corporate trust office of the Tender Agent at or before 1:00 p.m., New York City time, on the Purchase Date;

(v) state that if the Holder of any 2004 Series A Bond subject to mandatory tender fails to deliver such 2004 Series A Bond to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of funds sufficient to pay the Purchase Price thereof, such 2004 Series A Bond (or portion thereof) shall nevertheless be deemed purchased on the Purchase Date and ownership of such 2004 Series A Bond (or portion thereof) shall be transferred to the purchaser thereof,

(vi) state that any Holder that fails to deliver such 2004 Series A Bond for purchase shall have no further rights thereunder or under this First Supplemental Indenture except the right to receive the Purchase Price thereof upon presentation and surrender of such 2004 Series A Bond to the Tender Agent and that the Trustee will place a stop transfer against the 2004 Series A Bonds subject to mandatory tender registered in the name of such Holder(s) on the registration books;

(vii) in the case of mandatory tender upon any proposed conversion of 2004 Series A Bonds, state that such conversion and such mandatory tender will not occur if certain events and conditions specified in Section 2.04(c) do not occur or are not satisfied (and summarize those events and conditions);

(viii) in the case of mandatory tender upon the proposed conversion of ARCs to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, identify the Liquidity Provider, if any, and the projected rating or ratings of the 2004 Series A Bonds following the Conversion Date, or state that there shall be no separate Liquidity Provider other than the Commission;

(ix) in the case of mandatory tender on the fifth day next preceding the Expiration Date, state that such mandatory tender will not occur, if, on or prior to such fifth day, the Expiration Date is extended; and

(x) in the case of mandatory tender on a Substitution Date, state the information required by Section 3.12(d).

(e) Notice of mandatory tender of 2004 Series A Bonds by reason of a proposed Conversion Date shall be given in accordance with Sections 2.04(c); and notice of mandatory tender of 2004 Series A Bonds by reason of a proposed Substitution Date shall be given in accordance with Section 3.12(d). Notice of mandatory tender of 2004 Series A Bonds by reason of other events described in Subsection (a) shall be given by the Trustee no fewer than 10 days prior to the applicable Purchase Date (i) to the Holders of the 2004 Series A Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice) by first-class mail, and (ii) to the Commission, the Remarketing Agent, the Tender Agent and the Liquidity Provider by first-class mail.

(f) If, following the giving of notice of mandatory tender of 2004 Series A Bonds pursuant to Subsection (a), an event occurs which, in accordance with the terms of this First Supplemental Indenture, causes such mandatory tender not to occur, then (i) the Trustee shall so notify the Holders of the 2004 Series A Bonds (at their addresses as they appear on the registration books of the Trustee on the date of such notice), by first-class mail, as soon as may be practicable after the applicable Purchase Date, and (ii) the Tender Agent shall return to their Holders any 2004 Series A Bonds tendered to the Tender Agent in connection with such mandatory tender of 2004 Series A Bonds.



### Section 3.09 The Remarketing Agent.

(a) At any time of a proposed conversion of the 2004 Series A Bonds pursuant to Section 2.04 to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, the Commission shall appoint a Remarketing Agent with the prior written consent of the Liquidity Provider and the Bond Insurer (which consents shall not be unreasonably withheld). Successor Remarketing Agents may be appointed from time to time by the Commission with the prior written consent of the Liquidity Provider and the Bond Insurer (which consents shall not be unreasonably withheld). The Remarketing Agent shall be a corporation or other legal entity organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to perform all duties imposed upon the Remarketing Agent by this First Supplemental Indenture, and shall be either (a) a member of the National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or (b) a national banking association, commercial bank or trust company. So long as the 2004 Series A Bonds are held in book-entry form at the Securities Depository, the Remarketing Agent must be a Participant in the Securities Depository with respect to the 2004 Series A Bonds.

(b) Each Remarketing Agent appointed in accordance with this First Supplemental Indenture shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it as described herein by a written instrument of acceptance delivered to the Commission, the Trustee, the Tender Agent, the Bond Insurer and the Liquidity Provider or by executing and delivering a Remarketing Agreement, in either case under which the Remarketing Agent will agree, particularly:

(i) to hold all moneys delivered to it hereunder for the purchase of 2004 Series A Bonds in trust for the exclusive benefit of the Person or Persons that shall have so delivered such moneys until the 2004 Series A Bonds purchased with such moneys shall have been delivered to or for the account of such Person or Persons;

(ii) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Commission, Bond Insurer, if any, the Trustee and the Tender Agent at all reasonable times;

(iii) to determine (a) the Daily Rates, Weekly Rates, Short-Term Rates and Long-Term Rates, and (b) if engaged as Remarketing Agent in connection with the conversion to Fixed Rate Bonds, the Fixed Rate(s), and give notice of such rates in accordance with Article II;

(iv) to remarket Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds at rates no higher than the rate of interest available under the Liquidity Facility, if a Liquidity Facility secures the 2004 Series A Bonds, and to remarket Short-Term Rate Bonds and Long-Term Rate Bonds for Short-Term Periods

or Long-Term Interest Rate Periods, as appropriate, no longer than interest is available under the Liquidity Facility if a Liquidity Facility secures the 2004 Series A Bonds all in accordance with Section 3.12;

(v) to offer for sale and use its best efforts to find purchasers for the 2004 Series A Bonds tendered for purchase, any such sale to be made at a price equal to 100% of the principal amount thereof plus accrued interest to the purchase date, in accordance with the terms of this First Supplemental Indenture;

(vi) to deliver to the Tender Agent all 2004 Series A Bonds held by it in accordance with the terms of this First Supplemental Indenture and the Remarketing Agreement; and

(vii) to perform such other duties and responsibilities (including with respect to Liquidity Provider Bonds) as are provided in this First Supplemental Indenture to be performed by the Remarketing Agent.

Notwithstanding the foregoing, a Remarketing Agent may be engaged for only certain types of Interest Rate Periods, and in that event the Remarketing Agent shall not be required to perform the duties of the Remarketing Agent for any other type of Interest Rate Period.

(c) One or more firms may serve as co-Remarketing Agents hereunder provided that each co-Remarketing Agent satisfies the requirements of Subsection (a). If co-Remarketing Agents have been appointed and are performing the duties of Remarketing Agent hereunder, all references herein to the Remarketing Agent shall be deemed to refer to all the Remarketing Agents acting jointly; provided that the Remarketing Agreement may provide that one firm may perform certain specified duties hereunder in its sole capacity.

(d) The Remarketing Agent may at any time resign and be discharged of the duties and obligations described in this First Supplemental Indenture by giving at least 30 days notice to the Commission, the Trustee, the Bond Insurer, the Tender Agent, the Liquidity Provider, and all rating agencies then providing ratings for the 2004 Series A Bonds; provided that the Remarketing Agent shall continue to serve as Remarketing Agent until such time as a successor Remarketing Agent shall have been appointed and shall have accepted such appointment. The Remarketing Agent may be removed at any time upon the written request of the Commission and upon written notice to the Remarketing Agent, the Tender Agent, the Trustee and the Liquidity Provider; provided, however, that no such removal shall be or become effective unless and until a successor Remarketing Agent shall have been appointed and accepted such appointment in accordance with Subsection (a).

(e) If and so long as no successor Remarketing Agent is appointed by the Commission after the office of Remarketing Agent becomes vacant, the Tender Agent or Trustee, at the expense of the Commission, may petition a court to appoint a successor Remarketing Agent.

(f) The Remarketing Agent may in good faith hold the 2004 Series A Bonds or any other form of indebtedness issued by the Commission or any security issued by the Commission; own, accept or negotiate any drafts, bills of exchange, acceptances or obligations thereof, and make disbursements therefor and enter into any commercial or business arrangement therewith; all without any liability on the part of the Remarketing Agent for any real or apparent conflict of interest by reason of any such actions.

### Section 3.10 Sale of 2004 Series A Bonds by Remarketing Agent.

(a) Upon the receipt by the Remarketing Agent of (i) notice of tender of Daily Rate Bonds or Weekly Rate Bonds pursuant to Section 3.06, or (ii) notice of mandatory tender of 2004 Series A Bonds pursuant to Section 3.08, the Remarketing Agent shall offer for sale and use its best efforts to solicit purchases of 2004 Series A Bonds subject to purchase on the applicable Purchase Date at a price equal to the Purchase Price; provided that the Remarketing Agent shall not offer for sale or use its best efforts to solicit purchases of 2004 Series A Bonds subject to mandatory tender on the Expiration Date or the Termination Date; and provided further that, prior to the Expiration Date, the Remarketing Agent shall not offer for sale or sell any 2004 Series A Bonds to the Commission or any Affiliate.

(b) The Remarketing Agent shall direct that the proceeds of all purchases of 2004 Series A Bonds solicited and arranged by the Remarketing Agent be paid to the Tender Agent (for deposit in the Remarketing Account of the Purchase Fund), at or prior to 11 a.m., New York City time, on the applicable Purchase Date, in immediately available funds (and, promptly upon receipt thereof, the Tender Agent shall deposit such proceeds in the Remarketing Account of the Purchase Fund).

(c) At or prior to 4:30 p.m., New York City time, on the Business Day next preceding each Purchase Date (other than a Purchase Date arising under Section 3.06 with respect to a 2004 Series A Bond bearing interest at a Daily Rate), the Remarketing Agent shall give notice by telephone (promptly confirmed by telecopy, telex, telegram or other telecommunication device) to the Trustee, the Tender Agent, the Liquidity Provider and the Commission specifying: (i) the aggregate principal amount and Purchase Price of 2004 Series A Bonds subject to purchase on such Purchase Date for which the Remarketing Agent has received indications of interest from prospective purchasers, and (ii) the aggregate principal amount and Purchase Price of 2004 Series A Bonds subject to purchase on such Purchase Date for which the Remarketing Agent has not received indications of interest from prospective purchasers.

(d) The Remarketing Agent shall offer for sale and use its best efforts to arrange for the sale and remarketing of all Liquidity Provider Bonds at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon (at the rate that would be borne by such Liquidity Provider Bonds if such Liquidity Provider Bonds were not Liquidity Provider Bonds). In connection with each remarketing of Liquidity Provider Bonds by the Remarketing Agent:

(i) The Remarketing Agent shall (i) provide to the Commission, the Liquidity Provider, the Trustee and the Tender Agent not less than one Business Days prior notice of such remarketing, and (ii) pay, or cause to be paid to the Liquidity Provider, by wire transfer of immediately available funds, the proceeds of such remarketing;

(ii) The Commission shall (i) in consultation with the Liquidity Provider, calculate the amounts payable to the Liquidity Provider pursuant to the Liquidity Facility by reason of, and on the date of such remarketing (such amounts being referred to as the "Remarketing Payment Amount"), and (ii) pay to the Liquidity Provider, or direct the Trustee to withdraw from the Debt Service Fund and pay to the Liquidity Provider, in either case, on the date of such remarketing and by wire transfer of immediately available funds, an amount of money which, when added to the proceeds of such remarketing being delivered to the Liquidity Provider on the date of such remarketing, equals the Remarketing Payment Amount;

(iii) The Tender Agent shall confirm with the Liquidity Provider the receipt by the Liquidity Provider of the Remarketing Payment Amount, the reinstatement of the Liquidity Facility in respect of such Liquidity Provider Bonds and the authorization of the Liquidity Provider to release such Liquidity Provider Bonds; and

(iv) After, and only after, receipt by the Tender Agent of confirmation by the Liquidity Provider of the reinstatement of the Liquidity Facility to cover such Liquidity Provider Bonds following remarketing thereof and authorization by the Liquidity Provider of such transfer or such authentication and delivery, the Tender Agent shall (i) while a book-entry system is in effect with respect to the 2004 Series A Bonds, cause the ownership interest in such Liquidity Provider Bonds to be transferred to or for the benefit of such purchaser or purchasers as are specified by the Remarketing Agent for such purpose, and (ii) while a book-entry system is not in effect with the Securities Depository with respect to the 2004 Series A Bonds, cause the Trustee to authenticate other 2004 Series A Bonds in lieu of such Liquidity Provider Bonds and to deliver the same to or upon the instruction of the Remarketing Agent.

(e) The Remarketing Agent shall offer for sale and use its best efforts to arrange for the sale and remarketing of (i) all 2004 Series A Bonds subject to purchase on a Purchase Date that are purchased with moneys provided by the Commission to the Tender Agent for such purpose (as described in Section 3.07(c)(ii)), and (ii) all 2004 Series A Bonds that are

purchased by the Commission pursuant to the Liquidity Facility and not surrendered by the Commission for cancellation.

### Section 3.11 Delivery of 2004 Series A Bonds.

(a) Upon application of the moneys described in Section 3.07(d)(i) to the purchase of 2004 Series A Bonds on a Purchase Date pursuant to Section 3.07(d)(i) (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to Section 3.07(e)), the Tender Agent shall cause the Trustee to register the transfer of 2004 Series A Bonds purchased therewith in the names of the purchasers thereof in accordance with information provided by the Remarketing Agent for such purpose and to have such transferred 2004 Series A Bonds available for delivery against payment therefor.

(b) Upon application of the moneys described in Section 3.07(d)(ii) to the purchase of 2004 Series A Bonds on a Purchase Date pursuant to Section 3.07(d)(ii) (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to Section 3.07(e)), (i) the 2004 Series A Bonds purchased (or, in the case of such transfer, provided to be purchased) with such moneys shall constitute Liquidity Provider Bonds (unless and until such 2004 Series A Bonds cease to be Liquidity Provider Bonds as described in the definition thereof), and (ii) if a book-entry system is in effect with the Securities Depository with respect to the 2004 Series A Bonds, the ownership interest in such Liquidity Provider Bonds shall be transferred on the books of the Securities Depository to or for the account of the Tender Agent or a Participant acting on behalf of the Tender Agent and the Tender Agent shall, and shall cause such Participant to, mark its own books and records to reflect the beneficial ownership of such Liquidity Provider Bonds by the Liquidity Provider, and (iii) if a book-entry system is not in effect with the Securities Depository with respect to the 2004 Series A Bonds, such 2004 Series A Bonds shall be delivered by the Tender Agent to the Trustee for registration of transfer and shall be registered by the Trustee in the name of the Liquidity Provider, or any nominee of the Liquidity Provider, and delivered by the Trustee to the Tender Agent and held by the Tender Agent as the custodian of the Liquidity Provider. The Tender Agent shall release and redeliver or transfer Liquidity Provider Bonds (being remarketed by the Remarketing Agent) as provided in Section 3.10(d). Any other disposition of Liquidity Provider Bonds shall be made only at the written direction or with the prior written consent of the Liquidity Provider.

(c) Upon the application of moneys described in Section 3.07(d)(iii) to the purchase of 2004 Series A Bonds on a Purchase Date pursuant to Section 3.07(d)(iii) (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to Section 3.07(e)), the 2004 Series A Bonds purchased (or, in the case of such transfer, provided to be purchased) with such moneys shall be registered in the name of the Commission and shall, at the direction of the Commission or the Bond Insurer, if any, be delivered to the Trustee for cancellation (and canceled by the Trustee) or delivered to the Tender Agent for the account of the Commission and remarketed in accordance with Section 3.10(e).

(d) [Reserved.]

### Section 3.12 The Liquidity Facility.

(a) Only the Tender Agent shall make Liquidity Facility Requests in accordance with Section 3.07(c).

(b) The Tender Agent shall not terminate or reduce the amounts available under the Liquidity Facility except by reason of the redemption, cancellation and/or defeasance of 2004 Series A Bonds.

(c) The Commission shall maintain a Liquidity Facility in effect during any time that the 2004 Series A Bonds are Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, unless the Bond Insurer has consented to the Commission serving as Liquidity Facility.

(d) The Commission may furnish a Substitute Liquidity Facility in substitution for the then existing Liquidity Facility with the consent of the Bond Insurer (which consent shall not be unreasonably withheld) subject to the following limitations and the other limitations set forth in this Section:

(i) The Substitute Liquidity Facility must be provided by a Qualified Financial Institution or, with the written consent of the Bond Insurer, the Commission.

(ii) The principal amount of the Substitute Liquidity Facility must be not less than an amount equal to the aggregate principal amount of all Outstanding Bonds, plus an amount equal to at least 34 days interest (183 days interest if the Bonds are Long-Term Rate Bonds and 273 days interest if the Bonds are Short-Term Rate Bonds) on all 2004 Series A Bonds Outstanding at the Maximum Rate other than Liquidity Provider Bonds under which the Liquidity Provider is required to purchase 2004 Series A Bonds tendered for purchase in accordance with this First Supplemental Indenture and the terms of the Substitute Liquidity Facility regarding the purchase, holding and sale of 2004 Series A Bonds thereunder must be in all material respects the same as those of the existing Liquidity Facility.

(iii) The bank or financial institution providing the Substitute Liquidity Facility and the form and content of the Substitute Liquidity Facility must be acceptable to the Trustee, the Remarketing Agent and the Bond Insurer (whose consents shall not be unreasonably withheld).

(iv) The term of the Substitute Liquidity Facility must be at least 364 days.

(v) On or prior to the effective date of a Liquidity Facility, the Commission shall furnish to the Trustee and the Bond Insurer:

(1) an Opinion of Counsel acceptable to the Trustee and the Bond Insurer to the effect that the Liquidity Facility has been duly authorized, executed and delivered by the Liquidity Provider and is a valid and binding obligation of the Liquidity Provider enforceable in accordance with its terms (subject as to enforceability to standard exceptions respecting bankruptcy, insolvency and similar laws and principles of equity) and that the exemption of the Liquidity Facility and the 2004 Series A Bonds from the registration requirements of the Securities Act of 1933, as amended, shall not be impaired by such Substitute Liquidity Facility or that the applicable registration or qualification requirements of such acts have been satisfied, and

(2) a Favorable Opinion of Bond Counsel.

(vi) The Commission shall give written notice to the Trustee, the Tender Agent, the Bond Insurer, the Liquidity Provider, the Remarketing Agent and each rating service then maintaining a rating on the Bonds, not less than 30 days prior to the effective date of any replacement of a Liquidity Facility with a Substitute Liquidity Facility and not less than 30 days prior to the Expiration Date of a Liquidity Facility then in effect, specifying that the Commission intends to replace the Liquidity Facility with a Substitute Liquidity Facility on or before the Expiration Date of the Liquidity Facility then in effect. Upon receipt of such notice, the Trustee shall promptly mail a notice of the anticipated delivery of the Substitute Liquidity Facility by first-class mail to the Remarketing Agent and each Holder. A draft of each Substitute Liquidity Facility and appropriate information concerning the issuer of the Substitute Liquidity Facility shall be submitted by the Commission to each rating service then maintaining a rating on the 2004 Series A Bonds.

(vii) The Commission shall cause to be delivered to the Trustee (with copies to the Bond Insurer) not less than fifteen (15) days prior to the Expiration Date of an existing Liquidity Facility (1) a commitment by the Liquidity Provider that will issue the Substitute Liquidity Facility, and (2) written notice from each rating service that has notified the Trustee in writing that it has established a rating on the 2004 Series A Bonds stating whether the substitution of the Substitute Liquidity Facility will result in a reduction or withdrawal of its short-term rating then in effect on the 2004 Series A Bonds. The 2004 Series A Bonds shall be subject to mandatory tender as provided in this First Supplemental Indenture, regardless of whether the proposed Substitute Liquidity Facility will result in a withdrawal or reduction of that rating service's then current short-term rating for the 2004 Series A Bonds.

The Trustee shall give notice to the Holders of the 2004 Series A Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice) and the Bond Insurer, by first-class mail, of the proposed substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect and the related Substitution Date (stating the issuer or issuers and the term of such Substitute Liquidity Facility) at least 10 days prior to such Substitution Date. Such notice shall also constitute the notice of mandatory tender of the 2004 Series A Bonds on the related Substitution Date; provided, however, that in addition to the information required by Section 3.08(d), such notice shall state that such mandatory tender of the 2004 Series A Bonds will not occur if, on or prior to the proposed Substitution Date, (i) the Tender Agent does not receive such Substitute Liquidity Facility, together with the supporting substitution documents, or (ii) if the Tender Agent does not receive written evidence from each Rating Agency then having a rating assigned to the 2004 Series A Bonds that the substitution which is to occur on such Substitution Date will not, in and of itself, result in a reduction, suspension or withdrawal by such Rating Agency of the short-term rating then assigned by such Rating Agency to the 2004 Series A Bonds. If, by reason of the conditions to such mandatory tender of the 2004 Series A Bonds (as stated in such notice), there is no mandatory tender of the 2004 Series A Bonds on the proposed Substitution Date, (i) the Tender Agent shall so notify the Trustee, (ii) the Trustee shall so notify the Holders of the 2004 Series A Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice) by first-class mail, and (iii) the Tender Agent shall return to their Holders any 2004 Series A Bonds tendered to the Tender Agent in connection with such mandatory tender of the 2004 Series A Bonds. Regardless of whether there is a mandatory tender for purchase of the 2004 Series A Bonds on a Substitution Date, the Trustee shall give notice of the occurrence of such Substitution Date to the Holders of the 2004 Series A Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice), by first-class mail, within five days after the occurrence of such Substitution Date.

(e) The Commission will not permit the Bond Insurer to be substituted as insurer of the 2004 Series A Bonds and will not permit the Bond Insurance Policy to be cancelled without the Liquidity Provider's prior written consent. The Commission will not permit the Bond Insurance Policy to be surrendered, canceled or terminated or amended or modified in any material respect, without the Liquidity Provider's prior written consent.

## ARTICLE IV

### APPLICATION OF PROCEEDS AND OTHER FUNDS

Section 4.01 Establishment of Accounts. In accordance with Section 503 of the Indenture, a 2004 Series A Project Account, a 2004 Series A Cost of Issuance Account and a 2003 Series 1 Notes Proceeds Project Account are hereby established within the Project Fund. Such accounts shall be established and held by the Trustee in accordance with subsections (2), (3), (4) and (6) of said Section 503. In accordance with Section 508 of the Indenture, a 2004 Series A Account is established within the Debt Service Reserve Fund. Initially, the 2004



Series A Account of the Debt Service Reserve Fund shall be funded by the Commission causing to be deposited with the Trustee the Debt Service Reserve Fund Surety Bond. Such account shall be established and held by the Trustee in accordance with said Section 508. In accordance with Section 506 of the Indenture, a 2003 Series 1 Notes Repayment Account is established within the Debt Service Fund. Such account shall be established and held by the Trustee in accordance with said Section 506. In accordance with Section 502 of the Indenture, a Purchase Fund shall be established, and within said Fund, there shall be established a Remarketing Account, Liquidity Account, a Commission Account and an Undelivered Bond Payment Account and the moneys on deposit therein shall be applied in accordance with Section 3.07 of this First Supplemental Indenture.

**Section 4.02 Application of 2004 Series A Bond Proceeds.** The net proceeds of the sale of the 2004 Series A Bonds shall be applied or caused to be applied by the Commission simultaneously with their delivery, as follows:

- (a) An amount equal to \$41,286,666.67 shall be deposited in the 2003 Series 1 Notes Repayment Account of the Debt Service Fund to repay the Commission's outstanding 2003 Series 1 Notes;
- (b) An amount equal to \$265,000, the estimated costs of issuance which may be paid from the proceeds of the 2004 Series A Bonds, shall be deposited by the Trustee in the 2004 Series A Cost of Issuance Account of the Project Fund;
- (c) The balance of the proceeds of the 2004 Series A Bonds, \$28,010,833.33, shall be deposited in the 2004 Series A Account of the Project Fund for application to the Cost of the 2004 Series A Project.

**Section 4.03 Disbursements from 2004 Series A Project Account.** Amounts in the 2004 Series A Project Account, the Operating Capital Accounts and the 2004 Series A Cost of Issuance Account shall be disbursed to or upon the order of the Commission upon receipt by the Trustee of one or more requisitions in the form annexed to and incorporated into this First Supplemental Indenture as Exhibit A, subject to the requirements of Section 503 of the Indenture.

**Section 4.04 Application of 2004 Series A Rebate Account; Tax Covenants.** The Commission and the Trustee covenant to take all actions necessary to comply with the Tax Compliance Certificate.

Notwithstanding any provision of the Indenture or this First Supplemental Indenture, the Commission shall take all lawful action necessary under the Code to ensure that interest on the 2004 Series A Bonds will remain exempt from federal income taxation to the extent provided in Section 103 of said Code and will refrain from taking any action which will cause interest on the 2004 Series A Bonds to lose the benefit of the exclusion from gross income

provided by Section 103(a) of the Code. The Commission shall not use or permit the use of any moneys held by the Commission or the Trustee under the Indenture in any manner which would result in the 2004 Series A Bonds being classified as private activity bonds within the meaning of Section 141 of the Code or as arbitrage bonds within the meaning of Section 148 of the Code.

The provisions of this Section 4.04 shall be complied with by the Commission in order to meet the requirements of the Code such that interest on the 2004 Series A Bonds shall be and remain exempt from federal income taxes to the extent provided in Section 103 of the Code; provided, however, that the Commission shall not be required to comply with any such provision with respect to the 2004 Series A Bonds in the event the Commission receives a Counsel's Opinion that compliance with such provision is no longer required to satisfy the requirements of the Code or that compliance with some other provision in lieu of a provision specified in this Section 4.04 will satisfy said requirements, in which case compliance with such other provision specified in the Counsel's Opinion shall constitute compliance with the provisions specified in this Section 4.04. The Commission shall adopt a Supplemental Trust Indenture reflecting the deletion or substitution of any such provision of this Section 4.04 in the same manner as provided for Supplemental Trust Indentures authorized in accordance with Section 901 of the Indenture.

Section 4.05 Operation and Maintenance Reserve Fund Requirement. The Operation and Maintenance Reserve Fund Requirement shall be funded at the level approved by the Public Utilities Commission and shall be funded in accordance with the time frame approved by the Public Utilities Commission.

Section 4.06. Renewal and Replacement Reserve Fund Requirement. The Renewal and Replacement Reserve Fund Requirement shall be funded at the level approved by the Public Utilities Commission and shall be funded in accordance with the time frame approved by the Public Utilities Commission.

Section 4.07. Application of Other Funds. Simultaneously with the delivery of the 2004 Series A Bonds, the Commission shall withdraw all moneys and securities then on deposit in the following interest-bearing restricted receipt accounts and deposit them as follows:

(1) Funds on deposit in Citizens Bank of Rhode Island Account 15410331 in the amount of \$22,372,941.96 representing unspent proceeds of the Commission's 2003 Series 1 Revenue Bond Anticipation Notes shall be deposited in the 2003 Series 1 Bond Anticipation Notes Proceeds Project Account of the Project Fund to be held by the Trustee.

(2) Funds on deposit in the Citizens Bank of Rhode Island Account 10099379 in the amount of \$3,487,038.00 and Citizens Account 11195886 in the amount of \$1,316,102.94 shall be transferred to the Grants and Project Reimbursements Account of the Project Fund.

(3) \$2,856,028.00 shall be deposited in the Operation and Maintenance Fund.

(4) \$1,667,566.92 shall be deposited in the State Obligations Reimbursement Account of the Debt Service Fund.

(5) \$4,727,646.18 shall be deposited in the Debt Service Payment Account of the Debt Service Fund.

(6) Funds on deposit in the Citizens Account 1119571-1 in the amount of \$7,929,457.28 and funds on deposit in Citizens Bank Account 10099379 in the amount of \$812,687.73 shall be deposited in the Stabilization Account of the Debt Service Fund.

## ARTICLE V

### PROVISIONS RELATING TO BOND INSURANCE

Section 5.01. Bond Insurer to Control Remedies. While the Bond Insurance Policy with respect to the 2004 Series A Bonds is in effect, notwithstanding anything else to the contrary in the Indenture, no right, power or remedy under the Indenture with respect to the 2004 Series A Bonds may be pursued without the prior written consent of such Bond Insurer. So long as the Bond Insurer continues to insure the 2004 Series A Bonds, the Bond Insurer shall be recognized as the sole Bondholder with respect to the 2004 Series A Bonds for the purpose of exercising all rights, consents and privileges available to Bondholders. The Bond Insurer shall have the right to direct the Trustee to pursue any right, power or remedy available hereunder with respect to any assets available hereunder which secure the 2004 Series A Bonds secured by such Bond Insurance Policy, including, without limitation, any right, power or remedy with respect to Revenues or other assets securing all Bonds on a pro rata basis. The 2004 Series A Bonds shall not be accelerated without notice to S&P and notice and the consent of the Bond Insurer.

Section 5.02. Removal of Trustee and Appointment of Successor. While the Bond Insurance Policy with respect to the 2004 Series A Bonds is in effect, no removal of the Trustee and no appointment of a successor Trustee shall become effective without the written approval of the Bond Insurer.

Section 5.03. Payment under the Bond Insurance Policy. (a) In the event that, on the second Business Day, and again on the Business Day prior to the payment date on the 2004 Series A Bonds, the Paying Agent has not received sufficient moneys to pay all principal of and interest on the 2004 Series A Bonds due on the second following or following, as the case may be, Business Day, the Paying Agent shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent shall so notify the Bond Insurer or its designee.

(c) In addition, if the Paying Agent has actual notice that any Bondholder has been required to disgorge payments of principal or interest on the 2004 Series A Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(d) The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Bondholders of the 2004 Series A Bonds as follows:

(1) If and to the extent there is a deficiency in amounts required to pay interest on the 2004 Series A Bonds, the Paying Agent shall (i) execute and deliver to U.S. Bank Trust National Association, or its successors under the Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Bond Insurer as agent for such Bondholders in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (ii) receive, as designee of the respective Bondholders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy, payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (iii) disburse the same to such respective Bondholders; and

(2) If and to the extent of a deficiency in amounts required to pay principal of the 2004 Series A Bonds, the Paying Agent shall (i) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Bond Insurer as agent for such Bondholder in any legal proceeding relating to the payment of such principal and an assignment to the Bond Insurer of any of the 2004 Series A Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (ii) receive, as designee of the respective Bondholders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy, payment therefor from the Insurance Paying Agent, and (iii) disburse the same to such Bondholders.

(e) Payments with respect to claims for interest on and principal of 2004 Series A Bonds disbursed by the Paying Agent from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Commission with respect to such 2004 Series A Bonds, and the Bond Insurer shall become the owner of such unpaid 2004 Series A Bonds and

claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, the Commission and the Paying Agent hereby agree for the benefit of the Bond Insurer that:

(1) The Commission and the Paying Agent recognize that to the extent the Bond Insurer makes payments, directly or indirectly (as by paying through the Paying Agent), on account of principal of or interest on the 2004 Series A Bonds, the Bond Insurer will be subrogated to the rights of such Bondholders to receive the amount of such principal and interest from the Commission, with interest thereon as provided and solely from the sources stated in the Indenture and the 2004 Series A Bonds; and

(2) The Commission and the Paying Agent, to the extent that monies have been provided by the Commission therefor, will accordingly pay to the Bond Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and the 2004 Series A Bonds, but only from the sources and in the manner provided therein for the payment of principal of and interest on the 2004 Series A Bonds to Bondholders, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

Section 5.04. Additional Bonds. In connection with the issuance of Additional Bonds, the Commission shall deliver to the Bond Insurer a copy of the disclosure document, if any, circulated with respect to such Additional Bonds. The Commission shall give notice to the Bond Insurer of the issuance of such Additional Bonds.

Section 5.05. Amendments. Copies of any amendments made to the documents executed in connection with the issuance of the 2004 Series A Bonds which are consented to by the Bond Insurer shall be sent to Standard & Poor's Corporation.

Section 5.06. Removal of Paying Agent and Appointment of Successor. The Bond Insurer shall receive notice of the resignation or removal of the Paying Agent and the appointment of a successor thereto.

Section 5.07. Defeasance. Any escrow for the defeasance of the 2004 Series A Bonds shall be invested only in Defeasance Obligations. The Bond Insurer shall be provided with an opinion of counsel acceptable to the Bond Insurer that the 2004 Series A Bonds have been legally defeased pursuant to Article XI of the Indenture and that the escrow agreement establishing such defeasance operates to legally defease the 2004 Series A Bonds within the meaning of the Indenture; provided, however that no such defeasance shall occur while any amount remains due to the Bond Insurer under the Insurance Agreement or any other documents.

In addition, the Bond Insurer shall be entitled to receive (a) fifteen (15) Business Days' notice of any advance refunding of the 2004 Series A Bonds and (b) an accountant's report with respect to the sufficiency of the amounts deposited in escrow to defease the 2004 Series A Bonds.

Section 5.08. Supplemental Agreements. Notwithstanding Section 6.03 of this First Supplemental Indenture, the Commission shall not enter into any agreement or consent to or participate in any arrangement pursuant to which the 2004 Series A Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such 2004 Series A Bonds without the prior written consent of the Bond Insurer.

Section 5.09. Fees and Expenses. The Commission agrees to reimburse the Bond Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorney's fees and expenses, incurred by the Bond Insurer in connection with (a) the enforcement by the Bond Insurer of the 2004 Series A Bonds, or the preservation or defense of any rights of the Bond Insurer under the Indenture or this First Supplemental Indenture and any other document executed in connection with the issuance of the 2004 Series A Bonds and (b) any consent, amendment, waiver or other action with respect to the Indenture or this First Supplemental Indenture or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Bond Insurer reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

Section 5.10. Notices. The Bond Insurer shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the Commission's audited financial statements and annual budget.

Any notice that is required to be given to a holder of the 2004 Series A Bonds or to the Paying Agent pursuant to the Indenture or this First Supplemental Indenture shall also be provided to the Bond Insurer. All notices required to be given to the Bond Insurer under the Indenture or this First Supplemental Indenture shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504 Attention: Surveillance.

Section 5.11. Miscellaneous. The Commission agrees not to use the Bond Insurer's name in any press release or presentation, public announcement or forum without the Bond Insurer's prior consent. In the event that the Commission is advised by counsel that it has a legal obligation to disclose the Bond Insurer's name in any press release or presentation, public announcement or forum, the Commission shall provide the Bond Insurer with at least three (3) Business Days' prior written notice of its intent to use the Bond Insurer's name together with a copy of the proposed use of the Bond Insurer's name and of any description of a transaction with the Bond Insurer and shall obtain the Bond Insurer's prior consent as to the form and substance of the proposed use of the Bond Insurer's name and any such description.

Section 5.12. Third Party Beneficiary. The Bond Insurer is a third-party beneficiary of the Indenture and this First Supplemental Indenture and may enforce such provisions of the Indenture and this First Supplemental Indenture as inures to its benefit in accordance with the terms hereof.

## ARTICLE VI

### AMENDMENTS

Section 6.01 Supplemental Indentures Not Requiring Consent of Bondholders. In addition to amendments pursuant to Articles IX and X of the Indenture, the Commission and the Trustee may from time to time, without the consent of or notice to any of the Bondholders but with prior written notice to the Bond Insurer and the Liquidity Provider, enter into one or more Supplemental Indentures amending this First Supplemental Indenture, for any one or more of the following purposes:

(a) To evidence the appointment of a Liquidity Provider, Remarketing Agent or Tender Agent, and in connection therewith to change any times of day specified herein by which any action must be taken;

(b) With the prior written consent of the Bond Insurer, to amend this First Supplemental Indenture in accordance with Section 2.03(h)(3) or 3.02(a)(iv) upon satisfaction of the conditions set forth therein;

(c) To alter the manner in which the Remarketing Agent may, in the reasonable exercise of its judgment, act pursuant to Section 2.03 to increase the likelihood of achieving the lowest net interest cost during the Interest Rate Period for any Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, but only if the Commission provides to the Trustee, the Liquidity Provider and the Bond Insurer a Favorable Opinion of Bond Counsel;

(d) With the prior written consent of the Bond Insurer, to alter, prior to the applicable Conversion Date for a conversion to the interest rate for the 2004 Series A Bonds to a Fixed Rate or Rates, the manner in which a schedule of principal payments and interest rates may be set pursuant to Sections 2.03(h) and 2.04(c)(5), or the redemption provisions to be applicable to 2004 Series A Bonds accruing interest at a Fixed Rate, but only if the Commission provides to the Trustee, the Liquidity Provider and the Bond Insurer a Favorable Opinion of Bond Counsel;

(e) With the prior written consent of the Bond Insurer, to amend the ARCs Provisions, but only if (i) unless the Bonds are not then in an ARCs Rate Period, the Trustee has mailed notice of the proposed amendment by first-class mail to each Bondowner and, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed that notice, the Auction Rate determined on that date is the Winning Bid Rate (as those terms are defined in the

ARCs Provisions) and (ii) the Commission provides to the Trustee and the Bond Insurer a Favorable Opinion of Bond Counsel;

(f) With the prior written consent of the Bond Insurer, to make any other change in connection with a conversion to a different Interest Rate Period, including, without limitation any changes required to comply with Section 2.04(c)(7);

(g) With respect to 2004 Series A Bonds in a variable rate mode, to conform to then existing industry practices to the extent not materially adverse to the rights of the Holders of the 2004 Series A Bonds;

(h) With respect to 2004 Series A Bonds bearing an adjustable interest rate, for any reason, but only if the owners of such 2004 Series A Bonds are given reasonable notice of such Supplemental Indenture and have the opportunity to tender their 2004 Series A Bonds for payment prior to the effective date of such Supplemental Indenture; and

(i) With the prior written consent of the Liquidity Provider, to amend Sections 2.03 or 3.05 through 3.12 of this First Supplemental Indenture if such amendment shall adversely affect the rights, duties or obligations of the Liquidity Provider.

Section 6.02 Amendment Relating to Auction Procedures Without Consent of Bondholders. Any and all provisions regarding auction procedures herein, and Exhibit B attached hereto, may be amended from time to time to conform to market or industry practice solely upon the written consent of the Commission, the Trustee and the Bond Insurer and upon written notice of such amendment to the Auction Agent, S&P and to the affected Bondholders, and no prior written consent of any such Bondholder shall be required in connection with the adoption of such amendment.

Section 6.03 Other Amendments. The provisions of Article IX and X of the Indenture govern all amendments other than those made pursuant to Sections 6.01 and 6.02. The Bond Insurer shall be considered the sole Bondholder for the purposes of consenting to (a) Supplemental Indentures entered into or (b) amendments made pursuant to Article IX and X of the Indenture; provided, however, that the Commission and the Trustee shall obtain the prior written consent of the Liquidity Provider prior to entering into Supplemental Indentures or amendments affecting the rights, duties or obligations of the Liquidity Provider.



## ARTICLE VII

## MISCELLANEOUS

Section 7.01 Authorization of Officers. The Chairperson and Executive Director of the Commission, acting singly, are hereby authorized and directed to do all acts and things and to execute and deliver any and all documents, certificates and other instruments necessary or desirable to effectuate the transactions contemplated by this First Supplemental Indenture and the Indenture.

Section 7.02 Annual Operating Budget. Prior to an Event of Default, the Commission and the Authorized Officers shall not be required to file its Annual Budget and other reports required by Section 608 of the Indenture with the Trustee, but shall nonetheless prepare its Annual Budget and other reports required by Section 608.

Section 7.03 Notices. Unless otherwise expressly provided, all notices to the Commission, the Trustee, the Paying Agent, the Liquidity Provider and S&P shall be in writing and shall be sent by registered or certified mail, postage prepaid, or delivered during business hours as follows: (i) to the Commission at its office at One Service Road, Providence, Rhode Island 02905, attention of Executive Director, (ii) to the Trustee and Paying Agent, J.P. Morgan Trust Company, National Association, Providence Washington Plaza, 121 South Main Street, 8<sup>th</sup> Floor, Providence, Rhode Island 02903, attention of Corporate Trust Department, (iii) to the Liquidity Provider, Dexia Credit Local, 445 Park Avenue, 7<sup>th</sup> Floor, New York, New York 10022, (iv) to S&P, Standard & Poor's Rating Service, 55 Water Street, 38<sup>th</sup> Floor, New York, New York 10041 or, as to all of the foregoing, to such other address as the addressees shall have indicated by prior written notice to the one giving notice. If mailed, any notice given under this section shall be deemed given upon mailing, and if delivered, such notice shall be deemed given upon receipt by the party for whom it was intended.

Any notice that is required to be given to the Bond Insurer pursuant to the Indenture or this First Supplemental Indenture shall also be provided to S&P.


Notice hereunder may be waived prospectively or retrospectively by the person entitled to the notice, but no waiver shall affect any notice requirement as to other persons.

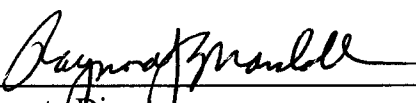
Section 7.04 Severability. In the event that any provision of this First Supplemental Indenture shall be held to be invalid under any circumstances, such invalidity shall not affect any other provisions or circumstances.

Section 7.05 Captions. The captions and table of contents, if any, of this First Supplemental Indenture are for convenience only and shall not affect the construction hereof.


IN WITNESS WHEREOF, the Commission and the Trustee have caused this First Supplemental Indenture to be executed in their respective corporate names by their duly authorized officers, all as of the date first above written.

NARRAGANSETT BAY COMMISSION

By \_\_\_\_\_  
Chairperson

By \_\_\_\_\_  
Deputy Director

J.P. MORGAN TRUST COMPANY,  
NATIONAL ASSOCIATION, as Trustee

By \_\_\_\_\_  
Vice President

@PFDesktop\::ODMA/MHODMA/TLSDMS.TLSLAW.COM;image;353971;11

EXHIBIT A  
FORM OF REQUISITION

REQUISITION NO.

NARRAGANSETT BAY COMMISSION

\$70,000,000 Narragansett Bay Commission  
Wastewater System Revenue Bonds, 2004 Series A

To: J.P. Morgan Trust Company, National Association, Trustee under Trust Indenture,  
as amended and supplemented by the First Supplemental Indenture, each dated as  
of April 15, 2004

This Requisition is made pursuant to Section 503 of the above Trust Indenture.

The Trustee is directed to pay sums out of the [PICK ONE] 2003 Series 1 Note  
Proceeds Account; 2004 Series A Bonds Project Account; 2004 Series A Bonds Cost of Issuance  
Account; Operating Capital Account; Grants and Project Reimbursements Account

Payee	Purpose of Payment	Amount
-------	--------------------	--------

I hereby certify that

(i) each obligation mentioned herein (a) has been properly incurred, (b) is a proper charge against the Account of the Project Fund named above, (c) is currently due and payable, (d) has not been previously paid or reimbursed, (e) has not been the basis of any previous withdrawal and (f) is an item of "Cost" or "Cost of Issuance" or, with respect to the Grants and Project Reimbursements Account, is a "Cost" or an "Operating Expense" (as defined in the Trust Indenture).

(ii) attached hereto are invoices (or, in the event reimbursement is being requested, cancelled checks) for each amount described herein.

NARRAGANSETT BAY COMMISSION

By: \_\_\_\_\_  
Authorized Officer

ATTACHMENT A

FORM OF NOTICE OF CHANGE IN PERCENTAGES

NARRAGANSETT BAY COMMISSION WASTEWATER SYSTEM  
REVENUE BONDS  
2004 SERIES A

(Used in Determination of the Maximum Rate,  
the All-Hold Rate and the Index for the Default Rate)

NOTICE IS HEREBY GIVEN that UBS Financial Services Inc., as Market Agent for the above-identified Bonds, hereby authorizes the adjustment in the percentages used to determine the All-Hold Rate and Applicable Percentage used in determining the Maximum Interest Rate and the Default Rate to reflect a Change in Preference Law as follows:

[Insert description of changes]

Included herewith is a copy of a Favorable Opinion of Bond Counsel to the effect that the adjustment in the percentages is authorized by Section 110 of Exhibit B of the Indenture and will not have an adverse effect on the exclusion of interest on the ARCs from gross income for federal income tax purposes.

UBS FINANCIAL SERVICES INC.

By \_\_\_\_\_  
Name:  
Title:

Dated:

EXHIBIT B

SPECIAL PROVISIONS RELATING TO ARCs

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SPECIAL PROVISIONS RELATING TO ARCs

**Section 100. Certain Definitions.** In addition to the terms defined elsewhere in this First Supplemental Indenture, the following terms shall have the following meanings with respect to 2004 Series A Bonds while they are ARCs, unless the context otherwise requires:

**"AA' Financial Commercial Paper Rate"** means, on any date of determination, (a) for ARCs Rate Periods of 35 days or less, the interest equivalent of commercial paper having a maturity of 30 days, (b) for ARCs Rate Periods greater than 35 days and up to 75 days, the interest equivalent of commercial paper having a maturity of 60 days, (c) for ARCs Rate Periods greater than 75 days and up to 105 days, the interest equivalent of commercial paper having a maturity of 90 day, and (d) for ARCs Rate Periods greater than 105 days, the interest equivalent of commercial paper having a maturity of 270 days, as each such rate is published on the Business Day prior to such date by the Board of Governors of the Federal Reserve System on its World Wide Web site <http://www.federalreserve.gov/releases/cp/histrates.txt>, or any successor publication ("H.15(519)") under the caption "AA financial." In the event that such publication has not been published in a timely manner, the "AA" Financial Commercial Paper Rate shall be calculated by the Market Agent, and shall be the bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include the Market Agent) selected by the Market Agent, for U.S. dollar commercial paper having a maturity of 30, 60 or 90 days, as applicable, placed for financial issuers whose bond rating is "AA" or the equivalent, from a nationally recognized securities rating agency; provided, however, that if the dealers selected as aforesaid by the Market Agent are not quoting as mentioned in this sentence (and if the Market Agent, in its discretion, determines that such quotations cannot be obtained from any three leading dealers of U.S. dollar commercial paper in the City of New York) such rate shall be the same rate as in effect for the immediately preceding Interest Period. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (A) 100 times (B) the discount rate times (C) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the applicable number of days in a year (365 or 366) divided by (y) the difference between (1) 360 and (2) the product of the discount rate (expressed in decimals) times the applicable number of days in which such commercial paper matures.

**"After-Tax Equivalent Rate"** means, on any date of determination, the interest rate per annum equal to the product of:

- (a) the "AA" Financial Commercial Paper Rate on such date; and
- (b) 1.00 minus the Statutory Corporate Tax Rate on such date.



**"All-Hold Rate"** means, on any date of determination, the interest rate per annum equal to 90% (as such percentage may be adjusted pursuant to Section 110 of this Exhibit B) of the lesser on such date of:

- (a) the After-Tax Equivalent Rate on such date; or
- (b) the Kenny Index on such date;

rounded to the nearest one thousandth (.001) of 1%; provided that in no event shall the All-Hold Rate be more than the Maximum Rate or less than zero.

**"Applicable ARCs Rate"** has the meaning assigned to such term in Section 102(b) of this Exhibit B.

**"Applicable Number of Business Days"** means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

**"Applicable Percentage"** means, on any date of determination, the percentage determined (as such percentage may be adjusted pursuant to Section 110 of this Exhibit B) based on the lower of the prevailing credit ratings on the ARCs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

<u>Fitch</u>	<u>S &amp; P</u>	<u>Applicable Percentage</u>
"AAA"	"AAA"	175%
"AA-" to "AA+"	"AA-" to "AA+"	175%
"A-" to "A+"	"A-" to "A+"	175%
"BBB-" to "BBB+"	"BBB-" to "BBB+"	200%
Below "BBB-"	Below "BBB-"	265%

provided, that, in the event that the ARCs are not rated by any nationally recognized securities rating agency, the Applicable Percentage shall be 265%, and, provided further, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 265%. For purposes of this definition, Fitch Ratings' rating categories of "AAA," "AA," "A," and "BBB." and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc.'s rating categories of "AAA," "AA," "A," and "BBB" refer to and include the respective rating categories correlative thereto if either or both of such rating agencies have changed or modified their generic rating categories or if Fitch Ratings or Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. no longer rates the ARCs and have been replaced.

**"ARCs"** means the 2004 Series A Bonds outstanding as Auction Rate Certificates prior to their conversion, if ever, to bear interest at Daily Rates, Weekly Rates, Short-Term Rates, Long-Term Rates or a Fixed Rate.

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

**"Auction Agency Agreement"** means the Auction Agency Agreement relating to the ARCs between the Trustee and the Auction Agent in a form satisfactory to the Trustee and the Auction Agent, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

**"Auction Agent"** means any person appointed as such pursuant to Section 112 of this Exhibit B.

**"Auction Agent Fee"** means the fee to be paid to the Auction Agent for the services rendered by it under the Auction Agency Agreement and the Broker-Dealer Agreement.

**"Auction Date"** means whenever the 2004 Series A Bonds are outstanding as ARCs the Business Day immediately preceding the first day of each Interest Period, other than:

- (a) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book entry form by the Securities Depository;
- (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more ARCs Rate Periods may be changed pursuant to Section 114 of this Exhibit B.

**"ARCs Rate Period"** means, with respect to any ARCs, the Interest Period applicable to the ARCs as the same may be changed pursuant to Section 114 of this Exhibit B.

**"Auction Procedures"** means the procedures set forth in Section 104 of this Exhibit B.

**"Auction Rate"** means the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures, and determined as described in Section 104 of this Exhibit B.

**"Authorized Denominations"** with respect to the ARCs means \$25,000 and any integral multiple thereof.

**"Available ARCs"** has the meaning assigned to such term in Section 104(c)(i)(A) of this Exhibit B.

**"Bid"** has the meaning assigned to such term in Section 104(a)(i) of this Exhibit B.

**"Bidder"** has the meaning assigned to such term in Section 104(a)(i) of this Exhibit B.

**"Broker-Dealer"** means UBS Financial Services Inc. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (i) is a Participant (or an affiliate of a Participant), (ii) has a capital surplus of at least \$100,000,000, (iii) has been selected by the Commission with the approval of the Market Agent and the Bond Insurer, if any and (iv) has entered into a Broker-Dealer Agreement that remains effective.

**"Broker-Dealer Agreement"** means (a) the Broker-Dealer Agreement between the Auction Agent and UBS Financial Services Inc. in a form satisfactory to the Auction Agent, the Broker-Dealer and the Bond Insurer, if any and (b) each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, in each case as from time to time amended or supplemented.

**"Broker-Dealer Fee"** means the fee to be paid to the Broker-Dealers for the services rendered by them under the Broker-Dealer Agreement.

**"Business Day"** with respect to the ARCs means any day other than April 14, April 15, December 30, December 31, such other dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer, the Bond Insurer, if any, and the Commission, or a Saturday, Sunday or other day on which banks in the city of New York, New York or the New York Stock Exchange, the Trustee or the Auction Agent are authorized or permitted by law or executive order to close.

**"Change of Preference Law"** means, with respect to any Holder of ARCs, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the Date of Delivery which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

**"Code"** means the Internal Revenue Code of 1986, as amended.

**"Default Rate"** on any date of determination means the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the Kenny Index or (ii) the Maximum Interest Rate.

**"DTC"** means The Depository Trust Company.

**"Existing Holder"** means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a qualified owner of ARCs.

**"Existing Holder Registry"** means the register maintained by the Auction Agent pursuant to Section [2.2(a)(i)] of the Auction Agency Agreement.

**"Hold Order"** has the meaning set forth in Section 104(a)(i) of this Exhibit B.

**"Interest Amount"** with respect to the ARCs, means the amount of interest distributable in respect of each \$1,000 in principal amount (taken, without rounding, to .0001 of one cent) of ARCs for any Interest Period or part thereof, as calculated in accordance with Section 108 of this Exhibit B.

**"Interest Payment Date"** with respect to the ARCs means the day following the end of each Interest Period (provided, however, that if the duration of the Interest Period is one year or longer, then the Interest Payment Dates therefor shall be each March 1 and September 1 during such Interest Period and the day following the end of such Interest Period) and shall also mean the maturity date for the ARCs. If any such date is not a Business Day, the Interest Payment Date shall be the next succeeding Business Day.

**"Interest Period"** with respect to the ARCs means (a) each successive seven-day period from and including the Conversion Date, commencing on a Friday (or the Business Day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Thursday) and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day, in which case such Interest Period will end on the next succeeding day that is followed by a Business Day), and (b) if the ARCs Rate Periods are changed as provided in the First Supplemental Indenture, each period commencing on an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

**"Kenny Index"** means the applicable index most recently made available by Kenny S&P Evaluation Services ("Kenny") or any successor thereto (the "Indexing Agent") based upon 30-day yield evaluations at par of securities, the interest on which is excluded from gross income for federal income tax purposes under the Code, of not less than five "Intermediate Grade" component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be

changed from time to time by the Indexing Agent in its discretion. The securities on which the Kenny Index is based shall not include any securities the interest on which is subject to a "minimum tax" or similar tax under the Code, unless all such securities are subject to such tax. In the event that Kenny no longer publishes an index satisfying the above definition of the Kenny Index or the Market Agent reasonably concludes that the Kenny Index will not be announced in a timely manner, then the Market Agent shall announce a rate based upon the same criteria used by Kenny to determine the Kenny Index and the rate announced by the Market Agent for each Auction Date thereafter shall be used in lieu of the Kenny Index for each Auction Date.

**"Market Agent"** means the market agent or market agents appointed pursuant to Section 111 of this Exhibit B, and its or their successors or assigns.

**"Market Agent Agreement"** means the Market Agent Agreement relating to the ARCs between the Trustee and the Market Agent, in a form satisfactory to the Trustee and the Market Agent and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

**"Maximum Interest Rate"** means the lesser of (a) 12% per annum or (b) the maximum rate of interest permitted by State law.

**"Maximum Rate"** means on any date of determination, the interest rate per annum equal to the lesser of:

- (a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent Rate on such date or (ii) the Kenny Index on such date; or
- (b) the Maximum Interest Rate;

rounded to the nearest one thousandth (.001) of 1%.

**"Order"** has the meaning assigned to such term in Section 104(a)(i) of this Exhibit B.

**"Participant"** means a member or participant in the Securities Depository.

**"Payment Default"** means the failure by the Commission and the Bond Insurer, if any, to make payment of interest on, premium, if any, and principal of the ARCs to Holders when due.

**"Potential Holder"** means, any Person (including an Existing Holder that is (a) a Broker-Dealer when dealing with the Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARCs (or, in the case of an Existing Holder thereof, an additional principal amount of ARCs).

**"Record Date"** with respect to the ARCs means the Applicable Number of Business Days immediately preceding each Interest Payment Date.

**"Redemption Date"** means the date fixed for such redemption.

**"SEC"** means the Securities and Exchange Commission.

**"Securities Depository"** means The Depository Trust Company, New York, New York or another recognized securities depository selected by the Commission which maintains a book-entry system for the ARCs.

**"Securities Exchange Act"** means the Securities Exchange Act of 1934, as amended.

**"Sell Order"** has the meaning assigned to such term in Section 104(a)(i) of this Exhibit B.

**"State"** means the State of Rhode Island.

**"Statutory Corporate Tax Rate"** means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions, regarding changes in rates during a taxable year.

**"Submission Deadline"** means 1:00 p.m., New York City time, on such Auction Date or any other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

**"Submitted Bid"** has the meaning assigned to such term in Section 104(c)(i) of this Exhibit B.

**"Submitted Hold Order"** has the meaning assigned to such term in Section 104(c)(i) of this Exhibit B.

**"Submitted Order"** has the meaning assigned to such term in Section 104(c)(i) of this Exhibit B.

**"Submitted Sell Order"** has the meaning assigned to such term in Section 104(c)(i) of this Exhibit B.

**"Sufficient Clearing Bids"** has the meaning assigned to such term in Section 104(c)(i)(B) of this Exhibit B.

**"Winning Bid Rate"** has the meaning assigned to such term in Section 104(c)(i)(C) of this Exhibit B.

**Section 101. Global Form; Securities Depository.**

(a) As provided in the First Supplemental Indenture, the 2004 Series A Bonds shall initially bear interest at a Weekly Rate. Except as otherwise provided in this Section 101, in the event that the 2004 Series A Bonds are converted to an ARC's Rate Period, the ARCs, in the form of one 2004 Series A Bond for each maturity, shall be registered in the name of the Securities Depository, and ownership thereof shall be maintained in book-entry form by the Securities Depository for the account of the Participants thereof. Initially, the ARCs shall be registered in the name of Cede & Co., as the nominee of DTC. Except as provided in subsection (c) of this Section 101, the ARCs may be transferred, in whole but not in part, only to DTC, or to a successor of DTC selected or approved by the Commission or to a nominee of such successor Securities Depository.

(b) None of the Commission, the Market Agent, the Trustee nor any of their respective affiliates shall have any responsibility or obligation with respect to:

- (i) the accuracy of the records of the Securities Depository or any Participant with respect to any beneficial ownership interest in the ARCs;
- (ii) the delivery to any Participant, any beneficial owner of the ARCs or any other Person, other than the Securities Depository, of any notice with respect to the ARCs; or
- (iii) the payment to any Participant, any beneficial owner of the ARCs or any other Person, other than the Securities Depository, of any amount with respect to the principal, premium, if any, or interest on the ARCs.

So long as the certificates for the ARCs are not issued pursuant to subsection (c) of this Section 101, the Commission and the Trustee may treat the Securities Depository as, and deem the Securities Depository to be, the absolute owner of the ARCs for all purposes whatsoever, including without limitation:

- (i) the payment of principal, premium, if any, and interest on the ARCs;
- (ii) giving notices of redemption and other matters with respect to the ARCs;
- (iii) registering transfer with respect to the ARCs; and
- (iv) the selection of ARCs for redemption.

(c) If at any time the Market Agent has notified the Commission that the ARCs should not be maintained in book-entry form or the Securities Depository notifies the Commission that it is unwilling or unable to continue as Securities Depository with respect to the ARCs, or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a successor Securities Depository is not appointed by the Commission within 90 days after the Commission receives notice or becomes aware of such condition, as the case may be, then this Section shall no longer be applicable and the Commission shall execute (but need not prepare) and the Trustee shall authenticate and deliver certificates representing the ARCs as provided below. Certificates for the ARCs issued in exchange for a global certificate pursuant to this subsection (c) shall be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Participants or otherwise, shall instruct the Commission and the Trustee in writing. Based on information provided by the Securities Depository, the Trustee shall promptly deliver such certificates representing the ARCs to the persons in whose names such ARCs are so registered on the Business Day immediately preceding the first day of an Interest Period.

(d) So long as the ownership of the ARCs is maintained in book-entry form by the Securities Depository, an Existing Holder may sell, transfer or otherwise dispose of its beneficial interest in ARCs only pursuant to a Bid or Sell Order placed in any Auction or to or through a Broker-Dealer, provided that in the case of all transfers other than pursuant to Auctions such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer.

## **Section 102. Interest on ARCs.**

(a) Interest on the ARCs shall accrue for each Interest Period and shall be payable in arrears, commencing on the first Interest Payment Date after the Conversion Date and on each Interest Payment Date thereafter.

(b) The rate of interest on the ARCs for the ARCs Interest Period shall be the Auction Rate unless the Auction Rate exceeds the Maximum Rate, in which case, the rate of interest on the respective ARCs for such Interest Period shall be the Maximum Rate, or unless the Maximum Rate shall actually be lower than the All-Hold Rate, in which case the rate of interest on the respective ARCs for such Interest Period shall be the Maximum Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period shall equal the rate of interest for the prior Interest Period. Notwithstanding the foregoing, if:

(i) the ownership of the ARCs is no longer maintained in book-entry form by the Securities Depository, the rate of interest on the ARCs for any Interest Period commencing after the delivery of certificates representing ARCs pursuant to Section 101(c) of this Exhibit B shall equal the Maximum Rate on the Business Day



immediately preceding the first day of such Interest Period and such Interest Period shall be seven (7) days; or

(ii) if a Payment Default occurs, Auctions will be suspended and the Applicable ARCs Rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than the Applicable Number of Business Days after, such Payment Default is cured will equal the Default Rate.

The rate per annum at which interest is payable on the ARCs for any Interest Period is herein referred to as the "Applicable ARCs Rate." Notwithstanding anything herein to the contrary, the Applicable ARCs Rate cannot exceed the Maximum Rate.

(c) Notwithstanding anything herein to the contrary, if any ARC or portion thereof has been selected for redemption during the next succeeding Interest Period, said ARC or portion thereof, will not be included in the Auction preceding such Redemption Date, and said ARC or portion thereof, will continue to bear interest until the Redemption Date at the rate established for the Interest Period prior to said Auction.

**Section 103. Payments.** So long as the ARCs are registered in the name of the Securities Depository, or the nominee thereof, payment (other than at maturity) of interest and premium, if any, on, and of principal at redemption of, the ARCs shall be made to the Securities Depository by wire transfer provided proper wire instructions are received. Each Holder of ARCs, by such Holder's purchase of ARCs, appoints the Trustee as its agent in connection with the payment by such Holder of its share, if any, of the amounts payable to the Auction Agent and the Broker-Dealers pursuant to Section 106 of this Exhibit B.

**Section 104. Auction Procedures.** Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Interest Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Securities Depository; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than the Applicable Number of Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner:

(a) Orders by Existing Holders and Potential Holders.

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Holder of ARCs may submit to a Broker-Dealer information as to:

- (I) the principal amount of Outstanding ARCs, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period;
  - (II) the principal amount of Outstanding ARCs, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Holder; and/or
  - (III) the principal amount of Outstanding ARCs, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and
- (B) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of ARCs which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Holder.

The communication to a Broker-Dealer of information referred to in clause (A)(I), (A)(II), (A)(III) or (B) of this paragraph (i) is hereinafter referred to as an "Order" and collectively as "Orders" and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders;" an Order containing the information referred to in (x) clause (A) (I) of this paragraph (i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders," (y) clause (A)(II) or (B) of this paragraph (i) is hereinafter referred to as a "Bid" and collectively as "Bids" and (z) clause (A)(III) of this paragraph (i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii)(A) Subject to the provisions of subsection (b) of this Section 104, a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

- (I) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined as provided in this Section shall be less than the rate specified in such Bid; or
- (II) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (D) of paragraph (i) of subsection (d) of this Section 104, if the Auction Rate determined as provided in this Section 104 shall be equal to the rate specified in such Bid; or

- (III) such principal amount or a lesser principal amount of Outstanding ARCs to be determined as set forth in clause (C) of paragraph (ii) of subsection (d) of this Section 104 if the rate specified shall be higher than the Maximum Interest Rate and Sufficient Clearing Bids have not been made.
- (B) Subject to the provisions of subsection (b) of this Section 104, a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:
  - (I) the principal amount of Outstanding ARCs specified in such Sell Order, or
  - (II) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (C) of paragraph (ii) of subsection (d) of this Section 104 if Sufficient Clearing Bids have not been made.
- (C) Subject to the provisions of subsection (b) of this Section 104, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:
  - (I) the principal amount of Outstanding ARCs specified in such Bid if the Auction Rate determined as provided in this Section shall be higher than the rate specified in such Bid; or
  - (II) such principal amount or a lesser principal amount of Outstanding ARCs as set forth in clause (E) of paragraph (i) of subsection (d) of this Section 104 if the Auction Rate determined as provided in this Section shall be equal to the rate specified in such Bid.
- (b) Submissions by Broker-Dealers to the Auction Agent.
  - (i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:
    - (A) the name of the Bidder placing such Order;
    - (B) the aggregate principal amount of ARCs that are the subject of such Order;
    - (C) to the extent that such Bidder is an Existing Holder:
      - (I) the principal amount of ARCs, if any, subject to any Hold Order placed by such Existing Holder;

- (II) the principal amount of ARCs, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and
  - (III) the principal amount of ARCs, if any, subject to any Sell Order placed by such Existing Holder; and
  - (D) to the extent such Bidder is a Potential Holder, the rate and amount specified in such Potential Holder's Bid.
- (ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.
- (iii) If an Order or Orders covering all Outstanding ARCs held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding ARCs held by such Existing Holder and not subject to an Order submitted to the Auction Agent.
- (iv) None of the Commission, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.
- (v) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARCs held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:
- (A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARCs held by such Existing Holder, and if the aggregate principal amount of ARCs subject to such Hold Orders exceeds the aggregate principal amount of ARCs held by such Existing Holder, the aggregate principal amount of ARCs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARCs held by such Existing Holder;
  - (B)(I) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Holder over the aggregate principal amount of ARCs subject to any Hold Orders referred to in clause (A) of this paragraph (v);

- (II) subject to subclause (I) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding ARCs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARCs subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of ARCs equal to such excess;
  - (III) subject to subclause (I) and (II) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and
  - (IV) in any such event, the aggregate principal amount of Outstanding ARCs, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and
- (C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARCs held by such Existing Holder over the aggregate principal amount of ARCs subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).
- (vi) If more than one Bid for ARCs is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.
  - (vii) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of ARCs not equal to an Authorized Denomination therefor shall be rejected.
  - (viii) Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and any such Bid shall be considered as valid and shall be selected in the ascending order of the respective rates in the Submitted Bids.

(ix) An Existing Holder that offers to purchase additional ARCs is, for purposes of such offer, treated as a Potential Holder.

(x) Any Bid specifying a rate higher than the Maximum Interest Rate will (a) be treated as a Sell Order if submitted by an Existing Holder and (b) not be accepted if submitted by a Potential Holder.

(c) Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.

(i) Not earlier than the Submission Deadline on each Auction Date, the, Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of Outstanding ARCs over the sum of the aggregate principal amount of Outstanding ARCs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARCs"); and

(B) from such Submitted Orders whether:

(I) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate;

exceeds or is equal to the sum of:

(II) the aggregate principal amount of Outstanding ARCs subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Interest Rate; and

(III) the aggregate principal amount of Outstanding ARCs subject to Submitted Sell Orders

(in the event such excess or such equality exists, other than because the sum of the principal amounts of ARCs in subclauses (II) and (III) above is zero because all of the Outstanding ARCs are subject to Submitted Hold Orders, such Submitted Bids in subclause (I) above are hereinafter referred to collectively as "Sufficient Clearing Bids"), and

- (C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if:
  - (I) (aa) each such Submitted Bid from Existing Holders specifying such lowest rate and (bb) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of ARC's subject to such Submitted Bids; and
  - (II) (aa) each such Submitted Bid from Potential Holders specifying such lowest rate and (bb) all other Submitted Bids from Potential Holders specifying lower rates were accepted,

the result would be that such Existing Holders described in subclause (I) above would continue to hold an aggregate principal amount of Outstanding ARCs which, when added to the aggregate principal amount of Outstanding ARCs to be purchased by such Potential Holders described in subclause (II) above, would equal not less than the Available ARCs.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Trustee of the Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

- (A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;
- (B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or
- (C) if all Outstanding ARCs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All-Hold Rate.

(d) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARCs. Existing Holders shall continue to hold the principal amount of ARCs that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) of subsection (d) of this Section 104, Submitted Bids and Submitted Sell Orders

shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

- (A) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of ARCs subject to such Submitted Bids;
- (B) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;
- (C) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of ARCs subject to such Submitted Bids;
- (D) Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids shall be greater than the principal amount of ARCs (the "remaining principal amount") equal to the excess of the Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of ARCs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding ARCs held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARCs subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and



- (E) Each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARCs obtained by multiplying the excess of the aggregate principal amount of Available ARCs over the aggregate principal amount of ARCs subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARCs subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.
- (ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARCs are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:
- (A) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of ARCs subject to such Submitted Bids;
- (B) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted, thus requiring each Potential Holder to purchase the aggregate principal amount of ARCs subject to such Submitted Bids, and
- (C) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the ARCs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARCs obtained by multiplying the aggregate principal amount of ARCs subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARCs held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARCs subject to all such Submitted Bids and Submitted Sell Orders.
- (iii) If all Outstanding ARCs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of ARCs that is not equal to an Authorized Denomination therefor the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARCs to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of ARCs purchased or sold by each Existing Holder or Potential Holder shall be equal to an Authorized Denomination therefor, if such allocation results in one or more of such Potential Holders not purchasing any ARCs.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARCs to be purchased and the aggregate principal amount of ARCs to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARCs to be sold differs from such aggregate principal amount of ARCs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, ARCs.

**Section 105. Certain Orders Not Permitted.** Neither the Commission nor an Affiliate may submit an Order in any Auction. The Auction Agent shall have no duty or liability in monitoring or enforcing compliance with this Section 105.

**Section 106. Payment of Service Charges; Notice of Payment Defaults and Cures.**

(a) The Commission shall pay to the Auction Agent, on behalf of the Holders of the ARCs (i) when due, an amount equal to the Auction Agent Fee as calculated in the Auction Agency Agreement and (ii) when due, an amount equal to the Broker-Dealer Fee as calculated in the Broker-Dealer Agreement.

(b) By 12:30 p.m., New York City time, on the Business Day immediately succeeding each Interest Payment Date, the Trustee will determine if a Payment Default has occurred. If a Payment Default has occurred, the Trustee shall notify the Auction Agent and Broker-Dealer by 1:00 p.m., New York City time, on said date. If a Payment Default has been cured, the Trustee shall so notify the Auction Agent and the Broker-Dealer by 5:00 p.m., New York City time, on the day such Payment Default is cured.

**Section 107. Calculation of the Rates.** The Auction Agent shall calculate the Maximum Interest Rate, the Maximum Rate and the All-Hold Rate on each Auction Date. The determination by the Auction Agent of each of such rates will (in the absence of manifest error) be final and binding upon all Holders and upon all other parties. If the ownership of the ARCs is no longer maintained in book entry form by the Securities Depository, the Market Agent shall

calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period commencing after the delivery of certificates representing the ARCs pursuant to Subsection 101(c) of this Exhibit B. If a Payment Default shall have occurred, the Market Agent shall calculate the Default Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than the Applicable Number of Business Days after the cure of any Payment Default. The Auction Agent shall determine the "AA" Financial Commercial Paper Rate for each Interest Period; provided, that if the ownership of the ARCs is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Market Agent shall determine the "AA" Financial Commercial Paper Rate for each such Interest Period. The determination by the Auction Agent or the Market Agent, as the case may be, of the "AA" Financial Commercial Paper Rate shall (in the absence of manifest error) be final and binding upon all parties. If calculated or determined by the Auction Agent or the Market Agent, the Auction Agent or the Market Agent (as applicable) shall promptly advise the Trustee of the "AA" Financial Commercial Paper Rate.

**Section 108. Computation of Interest.** The amount of interest distributable to Holders of ARCs in respect of each \$25,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by applying the Applicable ARCs Rate for such Interest Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Interest Period or part thereof concerned divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest one cent. Interest on the ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after January 1 of a leap year through December 31 of such leap year, such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year period. In the event an Interest Payment Date occurs in any Interest Period on a date other than the first day of such Interest Period, the Trustee, after confirming the calculation required above, shall calculate the portion of the Interest Amount payable on such Interest Payment Date and the portion payable on the next succeeding Interest Payment Date. The Trustee shall make the calculation required in this Section 108 not later than the close of business on each Auction Date.

**Section 109. Notification of Rates, Amounts and Payment Dates.**

(a) The Trustee shall determine the aggregate amount of interest distributable on the next succeeding Interest Payment Date to the Holders of the ARCs. So long as the ownership of the ARCs is maintained in book-entry form by the Securities Depository, the Trustee shall advise the Securities Depository of each Record Date for the ARCs at least two Business Days prior thereto.

(b) Promptly after the Date of Delivery and promptly after each determination of the rate of interest on ARCs and the Interest Amount and in any event at least three (3) days prior to each Interest Payment Date, the Trustee shall:

(i) so long as no Payment Default has occurred and is continuing and the ownership of the ARCs is maintained in book-entry form by the Securities Depository, confirm the Auction Agent's determination of (A) the date of such Interest Payment Date, (B) interest rate applicable to the ARCs for the related Interest Period and (C) the amount payable to the Auction Agent on that Interest Payment Date pursuant to Section 106 and notify the Auction Agent of any discrepancy therein; and

(ii) advise the Securities Depository, so long as the ownership of the ARCs is maintained in book-entry form by the Securities Depository, and the Commission of the Applicable ARCs Rate and the interest amount calculated in accordance with Section 108 above in respect of the next succeeding Interest Payment Date.

In the event that any day that is scheduled to be an Interest Payment Date shall be changed after the Trustee shall have given the notice referred to in clause (i) of the preceding sentence, not later than 9:15 a.m., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, the Trustee shall, by such means as the Trustee deems practicable, give notice of such change to the Commission and, so long as no Payment Default has occurred and is continuing and the ownership of the ARCs is maintained in book-entry form by the Securities Depository, the Auction Agent.

#### **Section 110. Adjustment in Percentages.**

(a) The Market Agent shall adjust the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the Applicable Percentage of the Kenny Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that ARCs paying the Maximum Rate, ARC's paying the All-Hold Rate and ARCs paying the Default Rate shall have substantially equal market values before and after such Change of Preference Law. Prior to any such adjustment, the Commission shall give notice thereof to any rating agency then rating the 2004 Series A Bonds and obtain the prior written consent of the Bond Insurer, if any, and no such adjustment shall be made unless such adjustment will not adversely affect the rating on the 2004 Series A Bonds. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account:

- (i) short-term taxable and tax-exempt market rates and indices of such short-term rates;
- (ii) the market supply and demand for short-term tax-exempt securities;
- (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the ARCs;

- (iv) general economic conditions; and
- (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the ARCs.

(b) The Market Agent shall effectuate an adjustment in the percentage used in determining the All-Hold Rate and the Applicable Percentage used in determining the Maximum Interest Rate and the Default Rate pursuant to subsection (a) of this Section 110 by delivering to the Commission, the Trustee and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change a Favorable Opinion of Bond Counsel and a certificate in substantially the form attached hereto as Attachment A, authorizing the adjustment of the percentage used in determining the All-Hold Rate, the Applicable Percentage used in determining the Maximum Rate and the Applicable Percentage of the Kenny Index used to determine the Default Rate, which shall be specified in such certificate.

**Section 111. Market Agent.** Prior to such time that the 2004 Series A Bonds are converted to ARCs, the Commission shall direct the Trustee to enter into a Market Agent Agreement with UBS Financial Services Inc., as the initial Market Agent. The Market Agent shall serve as such under the terms and provisions hereof and of the Market Agent Agreement. The Market Agent, including any successor appointed pursuant hereto, shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least \$25,000,000, and be authorized by law to perform all the duties imposed upon it by this First Supplemental Indenture and the Market Agent Agreement. The Market Agent may be removed at any time by the Trustee, acting at the written direction of (a) the Commission and the Bond Insurer, if any, or (b) the Holders of 66-2/3% of the aggregate principal amount of the ARCs, provided that such removal shall not take effect until the appointment of a successor Market Agent. The Market Agent may resign upon 30 days written notice delivered to the Commission, the Bond Insurer, if any, and the Trustee. The Commission shall use its best efforts to appoint a successor Market Agent that is a qualified institution, effective as of the effectiveness of any such resignation or removal. Notwithstanding that the Market Agent is the agent of the Trustee under the Market Agent Agreement, the Trustee shall not be liable in any way for any action taken, suffered, or omitted, or for any error of judgment made by the Market Agent, whether in the performance of its duties under the Market Agent Agreement or otherwise. In addition, the Trustee shall not be responsible for the fees and expenses of the Market Agent.

**Section 112. Auction Agent.**

(a) Prior to such time that the 2004 Series A Bonds are converted to ARCs, the Commission shall appoint an Auction Agent for the ARCs and direct the Trustee to enter into an agreement with the Auction Agent which shall provide as follows: The Auction Agent shall be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least

\$15,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000 and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agency Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by this First Supplemental Indenture by giving at least 90 days written notice to the Commission, the Trustee, the Bond Insurer, if any, and the Market Agent (30 days written notice if the Auction Agent has not been paid its fee for more than 45 days after such fee is due). The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the written direction of (i) the Commission and the Bond Insurer, if any, or (ii) the Holders of 66-2/3% of the aggregate principal amount of the ARCs, by an instrument signed by the Trustee and filed with the Auction Agent, the Commission, the Bond Insurer, if any, and the Market Agent upon at least 90 days notice; provided, however, that an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent before the resignation of the Auction Agent is effective. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Commission acting in lieu of the Trustee.

(b) In the event that the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Commission shall use its best efforts to appoint a successor as Auction Agent, and the Trustee at the written direction of the Commission shall thereupon enter into an Auction Agency Agreement with such successor.

(c) The Auction Agent shall be acting as agent for the Trustee and the Commission in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

(d) Notwithstanding that the Auction Agent is the agent of the Trustee hereunder and under the Auction Agency Agreement, the Trustee shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agency Agreement or otherwise, subject to Section [3.4(b)] of the Auction Agency Agreement. In addition, the Trustee shall not be responsible for the fees and expenses of the Auction Agent.

### **Section 113. Broker-Dealers.**

(a) The Auction Agent shall enter into a Broker-Dealer Agreement with UBS Financial Services Inc., as the initial Broker-Dealer. The Market Agent may from time to time

approve one or more additional Persons to serve as Broker-Dealers under Broker-Dealer Agreements.

(b) Any Broker-Dealer may be removed at any time by the Commission, but there shall, at all times, be at least one Broker-Dealer appointed and acting as such.

#### **Section 114. Changes in ARCs Rate Periods or Auction Date.**

##### **(a) Changes in ARCs Rate Period or Periods.**

(i) While any of the 2004 Series A Bonds are Outstanding as ARCs, the Market Agent:

- (A) in order to conform with then current market practice with respect to similar securities, shall; or
- (B) in order to accommodate economic and financial factors that may affect or be relevant to the length of the ARCs Rate Period and the interest rate borne by the ARCs and with the written consent of the Commission, may change, from time to time, the length of one or more ARCs Rate Periods (an "ARCs Rate Period Adjustment"). The Commission shall not consent to such change in the length of the ARCs Rate Period, if such consent is required above, unless the Commission shall have received from the Market Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the ARCs Rate Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Commission and the Securities Depository at least 10 days prior to the Auction Date for such ARCs Rate Period.

(ii) Any such changed ARCs Rate Period shall not be less than seven days.

(iii) The ARCs Rate Period Adjustment shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this Section 114 and the Auction immediately preceding the proposed change.

(iv) The ARCs Rate Period Adjustment shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such ARCs Rate Period, a certificate from the Market Agent, authorizing the ARCs Rate Period Adjustment specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first

ARCs Rate Period. If the condition referred to in (A) above is not met, the Applicable ARCs Rate for the next ARCs Rate Period shall be determined pursuant to the Auction Procedures and the ARCs Rate Period shall be the ARCs Rate Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Applicable ARCs Rate for the next ARCs Rate Period shall be the Maximum Rate and the ARCs Rate Period shall be the ARCs Rate Period determined without reference to the proposed change. In connection with any ARCs Rate Period Adjustment, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

(v) If ARCs Rate Periods are changed as provided herein and if an Auction is scheduled to occur for the next Interest Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the Applicable ARCs Rate in effect for the next Interest Period will be the Auction Rate in effect for the preceding Interest Period and such Interest Period will generally be 35 days in duration, beginning on the calendar day following the date of the deemed Auction and ending on (and including) the applicable Auction Date (unless such Auction Date is not followed by a Business Day, in which case on the next succeeding Business Day). If the preceding Interest Period was other than generally 35 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period.

(vi) If the ARCs Rate Period Adjustment is either (A) from an ARCs Rate Period of one year or less to an ARCs Rate Period of more than one year or (B) from an ARCs Rate Period of more than one year to an ARCs Rate Period of one year or less, the Auction Rate Adjustment shall not occur unless the Trustee, the Bond Insurer and the Commission have been provided with a Favorable Opinion of Bond Counsel.

(vii) Any change in the ARCs Rate Period to an ARCs Rate Period that extends beyond 35 days shall require the written consent of the Bond Insurer.

(b) Changes in the Auction Dates. While any of the 2004 Series A Bonds are outstanding as ARCs, the Market Agent:

(i) in order to conform with then current market practice with respect to similar securities, shall; or

(ii) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARCs and with the written consent of the Commission, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction



Date that would otherwise be determined in accordance with the definition of "Auction Date" in Section 100 of this Exhibit B with respect to one or more specified ARCs Rate Periods. The Commission shall not consent to such change in the Auction Date, if such consent is required in subparagraph (b)(ii) above, unless the Commission shall have received from the Market Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together within a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more ARCs Rate Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Commission and the Securities Depository.

(c) In connection with any change described in this Section 114, the Auction Agent shall provide such further notice to such parties as is specified in Section 2.6 of the Auction Agency Agreement.

(d) No change shall be made to the ARCs Rate Period or Auction Date unless the Commission give notice thereof to any Rating Agency then rating the 2004 Series A Bonds, and no change shall be made unless such change will not adversely affect the ratings on the 2004 Series A Bonds and the prior written consent of the Bond Insurer has been obtained.

**Section 115. Credit Ratings.** The Commission shall take all reasonable action necessary to enable at least one nationally recognized statistical rating organization (as that term is used in the rules and regulations of the SEC under the Securities Exchange Act) to provide credit ratings for the ARCs.

**Section 116. Notices.** The Market Agent shall provide the Trustee and, so long as no default under this First Supplemental Indenture has occurred and is continuing and the ownership of the ARCs is maintained in book-entry form by the Securities Depository, the Auction Agent with notice of any change in the Maximum Interest Rate.

**Section 117. Purchases of ARCs.** Neither the Commission nor an Affiliate shall purchase or otherwise acquire ARCs unless such ARCs are redeemed or otherwise canceled on the day of any purchase.

**Section 118. Notice of Payment Default.**

(a) If the Commission determines that a Payment Default has occurred the Commission shall promptly notify the Trustee in writing thereof.

(b) So long as the ownership of the ARCs is maintained in book-entry form by the Securities Depository, upon the occurrence of a Payment Default the Trustee shall promptly send a notice thereof to the Auction Agent and Market Agent by telecopy or similar means.

(c) So long as the ownership of the ARCs is maintained in book-entry form by the Securities Depository, the Trustee shall promptly send notice to the Auction Agent by telecopy or similar means if a Payment Default is cured.

**Section 119. Redemption Dates and Prices.** The outstanding ARCs are subject to redemption in accordance with Article III of the Master Indenture and Article III of this First Supplemental Indenture.

## EXHIBIT C

### PERMITTED INVESTMENTS

"Permitted Investments" with respect to the 2004 Series A Bonds shall mean:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1.     U.S. Export-Import Bank (Eximbank)  
           Direct obligations or fully guaranteed certificates of beneficial ownership
2.     Farmers Home Administration (FmHA)  
           Certificates of beneficial ownership
3.     Federal Financing Bank
4.     Federal Housing Administration Debentures (FHA)
5.     General Services Administration  
           Participation certificates
6.     Government National Mortgage Association (GNMA or "Ginnie Mae")  
           GNMA - guaranteed mortgage-backed bonds  
           GNMA - guaranteed pass-through obligations
7.     U.S. Maritime Administration  
           Guaranteed Title XI financing

8. U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System

Senior debt obligations

2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")

Participation Certificates

Senior debt obligations

3. Federal National Mortgage Association (FNMA or "Fannie Mae")

Mortgage-backed securities and senior debt obligations

4. Student Loan Marketing Association (SLMA or "Sallie Mae")

Senior debt obligations

5. Resolution Funding Corp. (REFCORP) obligations

6. Farm Credit System

Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF).

G. Investment Agreements, including guaranteed investment contracts (GICs), Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Bond Insurer.

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's ("S&P").

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

K. Repurchase Agreements ("Repos") which exceed 30 days must be acceptable to the Bond Insurer. Repos for 30 days or less must follow the following criteria:

Repos provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Commission (buyer/lender), and the transfer of cash from the Commission to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Commission in exchange for the securities at a specified date.

1. Repos must be between the Commission and a dealer bank or securities firm

a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's, or

b. Banks rated "A" or above by S&P and Moody's

2. The written Repo contract must include the following:

a. Securities which are acceptable for transfer are:

(1) Direct U.S. governments, or

(2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

b. The term of the Repo may be up to 30 days

c. The collateral must be delivered to the Commission, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. Valuation of Collateral. Notwithstanding Section 514(3) of the Resolution, investments shall be valued as follows:

(1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(2) The value of collateral must be equal to 104% of the amount of cash transferred by the Commission to the dealer bank or security firm under the Repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Commission, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the Commission:

Repo meets guidelines under state law for legal investment of public funds.

L. Any state administered pool investment fund in which the Commission is statutorily permitted or required to invest will be deemed a Permitted Investment.

M. Debt Service Reserve Fund investments should be valued at fair market value and marked to market at least once per year. Debt Service Reserve Fund investments may not have maturities extending beyond 5 years, except for Investment Agreements approved by the Bond Insurer.