

RESOLUTION NO. 07-13067

A RESOLUTION CONFIRMING AND CONTINUING THE CONSOLIDATION OF THE DISTRIBUTION DIVISION, THE LAKE CHELAN SYSTEM, THE WATER SYSTEM, THE WASTEWATER SYSTEM AND THE FIBER OPTICS SYSTEM OF PUBLIC UTILITY DISTRICT NO.1 OF CHELAN COUNTY, WASHINGTON; DISCONTINUING THE CONSOLIDATION OF THE ROCK ISLAND SYSTEM AND THE ROCKY REACH SYSTEM INTO THE CHELAN HYDRO CONSOLIDATED SYSTEM; RENAMING THE CHELAN HYDRO CONSOLIDATED SYSTEM; CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE DISTRICT TO FINANCE ANY LAWFUL PURPOSE OF THE DISTRICT; PROVIDING FOR THE PAYMENT OF SUCH BONDS FROM REVENUES OF THE CONSOLIDATED SYSTEM; AND MAKING CERTAIN OTHER COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING.

FACTUAL BACKGROUND AND REASONS FOR ACTION

1. Pursuant to Chapter 1 of the Laws of Washington, 1931, as amended and supplemented, constituting Title 54 of the Revised Code of Washington, Chapter 167 of the Laws of Washington, 1983, as amended and supplemented, constituting Chapter 39.46 of the Revised Code of Washington, and Chapter 138 of the Laws of Washington, 1965, extraordinary session, as amended and supplemented, constituting Chapter 39.53 of the Revised Code of Washington, Public Utility District No. 1 of Chelan County, Washington (the "District") has authority to purchase, condemn, acquire or construct any public utility, or make any additions or betterments thereto or extensions thereof, to issue revenue obligations to defray such cost and to issue refunding obligations to refund such revenue obligations.

2. Pursuant to Resolution No. 5367, adopted on July 27, 1976, as supplemented and amended, the District provided for the consolidation of its four separate electric utility systems (the Distribution System (now the "Distribution Division"), the Lake Chelan Hydro-Electric Production System, the Columbia River-Rock Island Hydro-Electric System and the Rocky Reach Hydro-Electric System) into a single integrated electric utility system for the generation, transmission and distribution of electric power and energy formerly known as the "Consolidated System" and thereafter known as the "Chelan Hydro Consolidated System" (the "Chelan Hydro Consolidated System"), subject only to the terms of the resolutions authorizing the issuance of bonds to finance each of said separate electric utility systems for as long as such bonds remain Outstanding.

3. The District has heretofore provided for the consolidation of its Water and Wastewater Systems into the Chelan Hydro Consolidated System, subject to any resolution theretofore or thereafter adopted placing a lien on or pledging the revenues of either such system; and subsequently for the creation of its Fiber Optics System as part of the Chelan Hydro Consolidated System.

4. The District has issued and there are presently Outstanding revenue bonds of the District issued for and on behalf of each of the Columbia River-Rock Island Hydro-Electric System and the Rocky Reach Hydro-Electric System, and such bonds issued for and on behalf of each such System are payable solely from the revenues derived by the District from its ownership and operation of such System.

5. The District has issued and there are presently Outstanding its Chelan Hydro Consolidated System Revenue Bonds (the "Senior Consolidated System Bonds") under and pursuant to Resolution No. 95-10188, adopted on June 19, 1995, as supplemented and amended, including as amended and restated in its entirety by Resolution No. 99-11303, adopted on November 1, 1999 (collectively, the "Senior Consolidated System Resolution"), payable solely from the revenues derived by the District from its ownership and operation of the Chelan Hydro Consolidated System.

6. The Senior Consolidated System Resolution provides that the District may issue obligations that are junior and subordinate to the payment of the Senior Consolidated System Bonds and which are payable out of Revenues only after the prior payment of all amounts required to be paid or set aside under the Senior Consolidated System Resolution for the Senior Consolidated System Bonds, as the same shall become due at the times and in the manner as required in the Senior Consolidated System Resolution.

7. The Commission hereby deems it advisable and to the benefit of the District to continue the consolidation of its Distribution Division and Lake Chelan Hydro-Electric Production System into the Chelan Hydro Consolidated System.

8. The Commission hereby deems it advisable and to the benefit of the District to continue the consolidation of its Water and Wastewater Systems and Fiber Optics System into the Chelan Hydro Consolidated System.

9. The Commission, however, hereby deems it advisable and to the benefit of the District to discontinue the consolidation of the Columbia River-Rock Island Hydro-Electric System and the Rocky Reach Hydro-Electric System into the Chelan Hydro Consolidated System.

10. The Commission also hereby deems it advisable and to the benefit of the District to rename the Chelan Hydro Consolidated System the "Consolidated System," subject to the terms and provisions of the Senior Consolidated System Resolution.

11. The Commission hereby deems it advisable and to the benefit of the District to establish a separate issue of revenue bonds of the District (the "Bonds"), which Bonds and the interest thereon shall be payable, except as otherwise provided herein, solely from Revenues, after payment of Operation and Maintenance Expenses (each as defined herein), and such issue of Bonds and the interest thereon shall constitute a lien and charge on the Revenues provided for the payment thereof, subject, however, to the

lien and charge thereon of the Senior Consolidated System Resolution for payment of the Senior Consolidated System Bonds.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

ARTICLE I DEFINITIONS AND GENERAL PROVISIONS

Section 1.1. Definitions. Unless the context otherwise requires, the terms defined in this Article shall, for all purposes of this Resolution and of any Supplemental Resolution, have the meanings herein specified:

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the accretion rate thereof on each date specified therein, to the date of calculation.

“Adjusted Net Revenues” in any Fiscal Year means:

- (a) Net Revenues in such Fiscal Year, plus
- (b) Withdrawals, if any, from the Rate Stabilization Fund that have been allocated to such Fiscal Year pursuant to Section 6.9, less
- (c) Deposits, if any, into the Rate Stabilization Fund that have been allocated to such Fiscal Year made pursuant to Section 6.9.

“Annual Debt Service” means:

(a) With respect to the Bonds, as of any date of calculation, for any Fiscal Year (or other designated twelve-month period) the amount of Principal and interest becoming due and payable on all Outstanding Bonds in such Fiscal Year (or other designated twelve-month period); provided, that for the purposes of computing Annual Debt Service:

(i) the interest rate on Variable Rate Bonds shall be assumed to be 80% of the 30-year Revenue Bond Index published in *The Bond Buyer* on such date of calculation (or, if *The Bond Buyer* ceases to be published or ceases to publish such index, any comparable successor nationally recognized financial publication or index designated by the District);

(ii) notwithstanding clause (i), if a Payment Agreement is in effect pursuant to which the District is obligated to pay a fixed rate with respect to any Variable

Rate Bonds, the interest rate on such Variable Rate Bonds during the period such Payment Agreement is scheduled to be in effect shall be assumed to be the fixed rate specified in such Payment Agreement;

(iii) if a Payment Agreement is in effect with respect to any Bonds pursuant to which the District receives a fixed rate in exchange for paying a variable rate, the interest rate on such Bonds during the period such Payment Agreement is scheduled to be in effect shall be assumed to be the sum of (A) the interest rate on such Bonds determined as if such Bonds were Variable Rate Bonds, and (B) the difference, if any, between the fixed rate of interest borne by such Bonds and the fixed rate the District receives pursuant to such Payment Agreement;

(iv) notwithstanding clause (i), the interest rate on Paired Bonds shall be assumed to be the aggregate fixed interest rate to be paid by the District with respect to such Paired Bonds;

(v) the Principal of any Balloon Bonds shall be assumed to become due and payable in each Fiscal Year in an amount that would be sufficient to fully amortize such Principal, together with interest thereon at the rate such Bonds are otherwise assumed to bear for purposes of this definition (using semi-annual compounding and a year of 360 days), on a level debt service basis over a period commencing on the first day of the Fiscal Year next preceding the date of calculation and ending 30 years thereafter; and

(vi) the Principal and interest payments on Bonds shall be excluded to the extent such payments are to be made from amounts on deposit, as of the date of calculation, with the Trustee in an escrow or other account irrevocably dedicated therefor, including interest payments that are to be paid from the proceeds of Bonds held by the Trustee;

(b) With respect to the Senior Consolidated System Bonds, the same as for the Bonds, substituting the term "Senior Consolidated System Bonds" for the term "Bonds" in clause (a) and every defined term contained therein and definitions thereof.

"Authorized Investments" means any obligations or investments in which the District may legally invest its funds.

"Available Funds" means, as of any date of calculation, any unencumbered funds of the Consolidated System, including cash and the book value of investments, held in the Rate Stabilization Fund, the Contingency Reserve Fund, and any other similar capital or operating reserve or contingency fund hereafter designated by the Commission, in each case that the District reasonably expects would be available, for all of the first full Fiscal Year following the date of calculation, to pay Principal of and interest on Bonds when due.

“Balloon Bonds” means the aggregate Principal of Bonds of a Series (including Capital Appreciation Bonds) that becomes due and payable, either at scheduled maturity, by Mandatory Sinking Fund Payment or by mandatory tender for purchase, in any Fiscal Year that constitutes 25% or more of the initial aggregate Principal of such Series of Bonds.

“Balloon Sinking Fund” means a sinking fund established and maintained by the District with respect to each Balloon Bond, in accordance with Section 8.4.

“Beneficial Owner” means, for any Bond held by a nominee, the owner of the beneficial interest in such Bond.

“Beneficial Owner Register” means the books maintained for the identification of Beneficial Owners.

“Bonds” means the Public Utility District No. 1 of Chelan County, Washington Consolidated System Revenue Bonds issued pursuant to, under authority of and for the purposes provided in this Resolution.

“Bond Counsel” means a firm of attorneys appointed by the District with substantial experience and expertise in the field of municipal finance law and the federal and state tax laws related thereto whose legal opinions are widely recognized and accepted by the municipal finance markets.

“Bond Coverage Ratio” for any Fiscal Year means the ratio of (a) Adjusted Net Revenues in such Fiscal Year (plus Available Funds, to the extent provided herein), to (b) Annual Debt Service on the Outstanding Bonds and Senior Consolidated System Bonds in such Fiscal Year.

“Bond Fund” means each fund of that name established pursuant to Section 6.5.

“Bond Register” means the books maintained for the registration and transfer of Bonds.

“Bond Retirement Account” means each account of that name established pursuant to Section 6.5.

“Bond Year” means, with respect to a Series of Bonds, the Bond Year set forth in the Supplemental Resolution authorizing the issuance of such Series of Bonds or in the Tax Certificate.

“Book-Entry Bonds” means Bonds for which a Securities Depository or its nominee is the Owner.

“Business Day” means any day other than (a) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or

obligated by law or executive order to be closed, (b) a day upon which the principal office of the District or the Trustee is authorized or required by law to be closed, or (c) with respect to a Series of Bonds, any day so specified in the Supplemental Resolution authorizing the issuance of such Series of Bonds.

“Capital Appreciation Bonds” means any Bonds the interest on which is not scheduled to be paid until the maturity or prior redemption thereof, or the conversion thereof to Current Interest Bonds.

“Capitalized Interest Account” means each account of that name established pursuant to Section 6.5.

“Certificate” of the District means a written certificate signed by a duly authorized officer or employee of the District.

“Chelan Hydro Consolidated System” means the “Chelan Hydro Consolidated System” ratified, confirmed, approved and continued by the Senior Consolidated System Resolution.

“Code” means the Internal Revenue Code of 1986, as amended and supplemented, and any successor legislation thereto, and all regulations promulgated from time to time by the United States Department of the Treasury with respect thereto.

“Commission” means the Commission of the District.

“Computation Period” means a five (5) year period ending on the last day of each fifth Bond Year.

“Conditional Redemption” means an optional redemption of Bonds (or portions thereof) that is conditioned upon the deposit of money, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date, notice of which the District may rescind on or prior to the scheduled redemption date.

“Consolidated System” means the “Consolidated System” established by and existing as of the date of this Resolution, and any and all additions, improvements, betterments, renewals, replacements and repairs thereto and extensions thereof, and shall include all (a) electric generation, transmission, distribution facilities, (b) water supply, treatment and distribution facilities, (c) wastewater collection, treatment and disposal facilities; (d) fiber optics network receipt, transmission and distribution facilities, and (e) other utility facilities, property and rights, tangible and intangible, hereafter purchased, constructed or otherwise acquired by the District from the proceeds of Bonds or from Revenues, including the Distribution Division, the Lake Chelan System, the Wastewater System, the Water System and the Fiber Optics System, and the funds and accounts established by the District with respect thereto. The Consolidated System shall not include any such facilities, property and rights that may be hereafter purchased, constructed or otherwise acquired by the District as a separate utility system the revenues

derived from the ownership and operation of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system. The term "Consolidated System" shall also include any other separate utility system of the District and any other facilities or systems that the District is authorized by law to own and operate if the District by resolution of the Commission determines to consolidate such separate utility system or other facilities or systems with and add them to the Consolidated System.

"Construction Fund" means each fund of that name established pursuant to Section 6.7.

"Consulting Engineer" means an independent consulting engineering firm appointed by the District with substantial experience and expertise in the area of electric utility engineering consulting whose opinions and views are widely recognized and accepted in the municipal finance markets.

"Contingency Reserve Fund" means the fund of that name previously established within the Consolidated System by Resolution No. 94-10052, adopted on December 19, 1994, the moneys in which are held in reserve and available in extraordinary circumstances to pay Operation and Maintenance Expenses, Principal of and interest on Bonds, and other costs of the Consolidated System.

"Credit Facility" means a letter of credit, line of credit, or other credit or liquidity facility provided by a financial institution or insurance company, including municipal bond insurance and guarantees, delivered to the Trustee for a Series of Bonds or portion thereof, which provides for payment, in accordance with the terms thereof, of the Principal, Purchase Price and/or Redemption Price of and/or interest on such Series of Bonds or portion thereof.

"Credit Facility Provider" means the financial institution or insurance company that is providing a Credit Facility.

"Current Interest Bonds" means any Bonds, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof commencing within 18 months from the date of issuance thereof.

"Distribution Division" means the facilities, properties and rights constituting the Distribution Division of the District, together with all additions, improvements and betterments thereto and extensions thereof.

"District" means Public Utility District No. 1 of Chelan County, a municipal corporation of the State of Washington.

"DTC" means The Depository Trust Company, New York, New York, or its successor.

“Event of Default” means each event defined as such in Section 9.1.

“Fiber Optics Resolution” means Resolution No. 04-12554, adopted on May 24, 2004.

“Fiber Optics System” means the facilities, properties and rights of the District for the operation of its fiber optics networks formally established by the Fiber Optics Resolution.

“Fiscal Year” means the twelve-month period selected from time to time by the District as the official fiscal year of the District.

“Fitch” means Fitch Ratings and its successors and assigns, except that if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities credit rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities credit rating agency selected by the District.

“Fund” means any fund or account established under this Resolution.

“GAAP” means generally accepted accounting principles from time to time applicable to governmental entities such as the District.

“Government Securities” means direct obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

“Interest Account” means each account of that name established pursuant to Section 6.5.

“Lake Chelan System” means the facilities, properties and rights constituting the Lake Chelan System of the District, together with all additions, improvements and betterments thereto and extensions thereof.

“Letter of Representations” means the blanket letter of representations executed by the District and delivered to DTC and any amendments thereto or successor blanket agreements between the District and any successor Securities Depository, relating to a system of Book-Entry Bonds to be maintained by the Securities Depository with respect to any bonds, notes or other obligations issued by the District.

“Mandatory Sinking Fund Payment” means, with respect to any Term Bond, an amount required by the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Term Bond is a part to be deposited in the Bond Retirement Account created for such Series of Bonds for the mandatory purchase or redemption of such Term Bond or portion thereof prior to the final maturity thereof.

“Moody’s” means Moody’s Investors Service, Inc. and its successors and assigns, except that if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities credit rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities credit rating agency selected by the District.

“Net Revenues” for any Fiscal Year (or other designated twelve-month period) means Revenues in such Fiscal Year (or other designated twelve-month period) less Operation and Maintenance Expenses for such Fiscal Year (or other designated twelve-month period).

“Operation and Maintenance Expenses” means the costs paid or accrued for the proper operation, maintenance and repair of the Consolidated System and taxes, assessments or other governmental charges lawfully imposed on the Consolidated System or the Revenues, or payments in lieu thereof, all as determined in accordance with GAAP as applied to governmental entities. The operation and maintenance expenses of the Rock Island System or the Rocky Reach System shall not constitute a part of Operation and Maintenance Expenses unless and until the Rock Island System or the Rocky Reach System, respectively, is consolidated into the Consolidated System. Operation and Maintenance Expenses shall not include depreciation or amortization expense or unrealized mark-to-market losses with respect to any property, investment, or financial or other agreement.

“Order” means a written order of the District signed by a duly authorized officer or employee of the District.

“Original Bonds” means the Rock Island Bonds, the Rocky Reach Bonds and the Senior Consolidated System Bonds.

“Original Resolutions” means the Rock Island Resolutions, the Rocky Reach Resolution, the Senior Consolidated System Resolution, the Water System Resolutions and the Wastewater System Resolutions, so long as the same shall remain in effect.

“Outstanding” means, as of any date, (a) when used with respect to the Bonds, all Bonds authenticated and delivered under this Resolution, except (i) Bonds theretofore cancelled or delivered to the Trustee for cancellation under Section 3.9, (ii) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to Article III, (iii) Bonds that are deemed to be no longer outstanding in accordance with Article XI and (iv) Bonds that are deemed to be no longer outstanding in accordance with the Supplemental Resolution pursuant to which such Bonds were issued; and (b) when used with respect to Rock Island Bonds, the Rocky Reach Bonds, and bonds or other obligations for borrowed money of the Water System or the Wastewater System, all obligations issued pursuant to the Rock Island Resolutions, the Rocky Reach Resolution, and the resolution or trust agreement authorizing the issuance of such Water System or Wastewater System bonds or other obligations for borrowed money, respectively, in each

case other than obligations deemed to be no longer outstanding pursuant to the terms of such resolutions or trust agreements.

“Owner,” with respect to a Bond, means the Person in whose name such Bond is registered.

“Paired Bonds” means Bonds (a) that are issued simultaneously, (b) that are designated as Paired Bonds in the Supplemental Resolution authorizing the issuance thereof or in a Certificate of the District delivered at the time of issuance thereof, (c) the principal amount of each portion of which is equal and which matures and is subject to mandatory sinking fund redemption on the same date and in the same amount, and (d) the interest rates on which, taken together, result in an irrevocable fixed interest rate obligation of the District on the aggregate principal amount of such Bonds until the maturity or prior redemption of such Bonds.

“Payment Agreement” means any financial instrument that (a) is entered into by the District with a party that is a Qualified Counterparty at the time the instrument is entered into; (b) is entered into with respect to all or a portion of a Series of Bonds; (c) is for a term not extending beyond the final maturity of the Series of Bonds or portion thereof to which it relates; (d) provides that the District shall pay to such Qualified Counterparty an amount accruing at either a fixed rate or a variable rate, as the case may be, on a notional amount equal to or less than the principal amount of the Series of Bonds or portion thereof to which it relates, and that such Qualified Counterparty shall pay to the District an amount accruing at either a variable rate or fixed rate, as appropriate, on such notional amount; (e) provides that one party shall pay to the other party any net amounts due under such instrument; and (f) which has been designated by the District as a Payment Agreement with respect to such Bonds.

“Payment Agreement Payments” means the regularly scheduled net amounts required to be paid by the District to the Qualified Counterparty pursuant to a Payment Agreement.

“Payment Agreement Receipts” means the regularly scheduled net amounts required to be paid by a Qualified Counterparty to the District pursuant to a Payment Agreement.

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

“Power Purchase Agreement” means a resolution, contract or agreement with a term of more than five (5) years pursuant to which the Consolidated System is obligated to purchase capacity or energy, including from a separate system of the District, and is obligated to pay for such capacity or energy regardless of whether or not such capacity or energy is taken by or made available or delivered to the Consolidated System.

“Principal” means, as of any date of calculation, (a) with respect to any Current Interest Bond, the principal amount thereof, and (b) with respect to any Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

“Purchase Price” means, with respect to any Bond, the price payable upon the optional or mandatory tender for purchase of such Bond or portion thereof as set forth in the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part.

“Qualified Counterparty” means a party other than the District which is the party to a Payment Agreement and, at the time of execution and delivery of the Payment Agreement, (a) (i) whose senior debt obligations are or claims-paying ability is rated in one of the three highest rating categories of each of at least two Rating Agencies (without regard to any gradations within a rating category) or (ii) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a Person whose senior debt obligations are or claims-paying ability is rated in one of the three highest rating categories of each of at least two Rating Agencies (without regard to any gradations within a rating category) and (b) which is otherwise qualified to act as the party to a Payment Agreement with the District under any applicable law.

“Rate Stabilization Fund” means the fund of that name established pursuant to Section 6.9.

“Rating Agencies” means Fitch, Moody’s and/or Standard & Poor’s or any other nationally recognized securities credit rating agency selected by the District.

“Rebate Amount” means, with respect to each Series of Tax-Exempt Bonds, an amount equal to the sum required to be paid to the United States Department of the Treasury from time to time, if any, with respect to the investment of proceeds of such Series of Tax-Exempt Bonds, all as determined in accordance with Section 148 of the Code and the Supplemental Resolution authorizing the issuance of such Series of Bonds.

“Rebate Fund” means each fund of that name established pursuant to Section 6.10.

“Redemption Price” means, (a) with respect to any Bond or portion thereof, the Principal of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part, and (b) with respect to any other obligation for borrowed money or portion thereof, the principal or accreted value of such obligation or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such

obligation and the resolution or resolutions authorizing the issuance or incurrence of such obligation.

“Refunding Bonds” means all Bonds issued pursuant to Section 4.3.

“Registrar” means the Person responsible for maintaining the Bond Register, which initially shall be the Trustee.

“Reserve Account” means each account of that name established pursuant to Section 6.6.

“Reserve Account Credit Facility” means a letter of credit, insurance policy, surety bond, or other credit facility provided to the Trustee by a bank, insurance company or other financial institution whose senior unsecured debt obligations are, or whose claims-paying ability is, rated in the highest rating category by each of at least two Rating Agencies, which provides for payment when due, in accordance with the terms thereof, of the Principal or Redemption Price of and/or interest on one or more Series of Bonds or portion thereof.

“Reserve Fund” means the fund of that name established pursuant to Section 6.6.

“Reserve Requirement” means, with respect to any Series of Bonds or portion thereof, unless otherwise specified in the Supplemental Resolution authorizing the issuance of such Series of Bonds, the least of (a) ten percent (10%) of the stated Principal amount of such Series of Bonds or portion thereof, (b) the maximum Annual Debt Service on such Series of Bonds or portion thereof, and (c) 125% of the average Annual Debt Service on such Series of Bonds or portion thereof.

“Resolution” means this Resolution No. 07-13067, adopted on March 12, 2007, as supplemented or amended pursuant hereto, together with any Supplemental Resolutions.

“Revenue Fund” means the “Revenue Fund” heretofore created and established by the District and continued pursuant to Section 6.1.

“Revenues” means all revenues, rates and charges received or accrued by the District for electric power and energy, water, wastewater, fiber optics networks and other services, facilities and commodities sold, furnished or supplied by the Consolidated System, together with income, earnings and profits therefrom (including interest earnings on the proceeds of any Bonds pending application thereof), all as determined in accordance with GAAP as applied to governmental entities. The revenues of the Rock Island System and the Rocky Reach System shall not constitute a part of Revenues unless and until the Rock Island System or the Rocky Reach System, respectively, is consolidated into the Consolidated System. The revenues of the Water System and the Wastewater System shall not constitute a part of Revenues to the extent such revenues are pledged to the payment of bonds or other obligations for borrowed money of either of those respective Systems. Revenues shall include principal and interest payments to the

Consolidated System on or with respect to loans made by the Consolidated System to any other separate system of the District that is not part of the Consolidated System. Revenues shall not include (a) proceeds from the issuance of any obligations for borrowed money, (b) amounts loaned to the Consolidated System, (c) Payment Agreement Receipts, (d) proceeds from taxes, (e) customer deposits while retained as such, (f) contributions in aid of construction, (g) gifts, (h) grants, (i) insurance or condemnation proceeds that are properly allocable to a capital account, (j) unrealized mark-to-market gains with respect to any property, investment or financial or other agreement, or (k) money received by the District as the proceeds of the sale of any portion of the properties of the Consolidated System.

“Rock Island Bonds” means any bonds or other obligations for borrowed money issued and Outstanding under the Rock Island Resolutions.

“Rock Island Resolutions” means Resolutions Nos. 1137 and 97-10671, adopted on December 20, 1955, and February 27, 1997, respectively, as such resolutions have been or may hereafter be amended or supplemented, but in each case only for so long as any Rock Island Bonds remain Outstanding thereunder.

“Rock Island System” means the facilities, properties and rights constituting the Columbia River-Rock Island Hydro-Electric System, together with all additions, improvements and betterments thereto and extensions thereof, including the first and second powerhouses thereof.

“Rocky Reach Bonds” means any bonds or other obligations for borrowed money issued and Outstanding under the Rocky Reach Resolution.

“Rocky Reach Resolution” means Resolution No. 1412, adopted on November 20, 1956, as such resolution has been or may hereafter be amended or supplemented, but in each case only for so long as any Rocky Reach Bonds remain Outstanding thereunder.

“Rocky Reach System” means the facilities, properties and rights constituting the Rocky-Reach Hydro-Electric System as defined in the Rocky Reach Resolution, together with all additions, improvements and betterments thereto and extensions thereof.

“Securities Depository” means a Person registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934, or any successor legislation, or whose business is confined to the performance of the functions of a clearing agency with respect to exempted securities, as defined in Section 3(a)(12) of such Act, or any successor legislation, for the purposes of Section 17A thereof.

“Senior Consolidated System Bonds” means all bonds issued and at any time Outstanding under the Senior Consolidated System Resolution.

“Senior Consolidated System Resolution” means Resolution No. 95-10188, adopted on June 19, 1995, as supplemented and amended, including as amended and restated by Resolution No. 99-11303, adopted on November 1, 1999.

“Series” means all of the Bonds issued and delivered on the same date which all are (a) payable from and secured by the same source of funds, and (b) and bear interest at either a Variable Rate or fixed-rate, regardless of individual variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as hereinafter provided.

“Standard & Poor’s” means Standard & Poor’s Ratings Services and its successors and assigns, except that if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities credit rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities credit rating agency selected by the District.

“State” means the State of Washington.

“Subordinate Obligations” means, collectively, bonds, notes or other obligations of the District for borrowed money payable from and secured by a pledge of and lien and charge on Revenues junior and inferior to the Bonds and the payments required to be made into the Bond Funds and the Reserve Fund.

“Supplemental Resolution” means any resolution hereafter duly adopted by the Commission, supplementing, modifying or amending this Resolution in accordance herewith.

“Take-or-Pay Contract” means a contract with a term of at least five (5) years between the District and a purchaser of capacity or energy from the Rock Island System, the Rocky Reach System and/or the Consolidated System, whereby such purchaser is obligated to make fixed payments or payments based on a percentage of cost for such capacity or energy whether or not such capacity or energy is taken by or made available or delivered to such purchaser.

“Tax Certificate” means the certificate delivered by the District regarding compliance with applicable provisions of the Code in connection with the issuance of the Bonds.

“Tax-Exempt Bonds” means Bonds, the interest on which in the opinion of Bond Counsel as of the date of issuance thereof is not includable in gross income for federal income tax purposes under Section 103(a) of the Code.

“Term Bonds” means Bonds that are subject to mandatory purchase or redemption prior to their scheduled maturity date or dates from Mandatory Sinking Fund

Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Treasurer” means the District, acting by and through its Treasurer or Chief Financial Officer.

“Trustee” means the trustee with respect to the Bonds appointed pursuant to the provisions of this Resolution.

“Variable Rate Bonds” means any Bonds the interest rate on which is not fixed to the scheduled maturity date or prior mandatory tender or redemption date, as of the date of calculation, at a single numerical rate for the entire remaining term to maturity or mandatory tender or redemption thereof.

“Wastewater System” means the facilities, properties and rights of the District for the collection, treatment and handling of wastewater.

“Wastewater System Resolutions” means any resolutions heretofore or hereafter adopted by the Commission pledging, or placing a lien or charge on, the revenues of the Wastewater System with respect to obligations for borrowed money payable from such revenues.

“Water System” means the facilities, properties and rights of the District for the supply, distribution, storage and handling of water.

“Water System Resolutions” means any resolutions heretofore or hereafter adopted by the Commission pledging, or placing a lien or charge on, the revenues of the Water System with respect to obligations for borrowed money payable from such revenues.

Section 1.2. Rules of Interpretation. For purposes of this Resolution, except as otherwise expressly provided or the context otherwise requires:

(a) The words “herein,” “hereof” and “hereunder” and other similar words refer to this Resolution as a whole and not to any particular Article, Section or other subdivision.

(b) The definitions in this Article are applicable whether the terms defined are used in the singular or the plural.

(c) All accounting terms that are not defined in this Resolution have the meanings assigned to them in accordance with GAAP.

(d) Any pronouns used in this Resolution include both the singular and the plural and cover both genders.

(e) Any terms defined elsewhere in this Resolution have the meanings attributed to them where defined.

(f) The captions or headings herein are for convenience of reference only and in no way define, limit or describe the scope or intent, or control or affect the meaning or construction, of any provisions or Sections hereof.

(g) Any references to Section numbers are to Sections of this Resolution unless stated otherwise.

(h) The term “including” when used in this Resolution means “including without limitation.”

Section 1.3. Content of Certificates and Opinions. Every certificate or opinion provided for in this Resolution with respect to compliance with any provision hereof shall include (a) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (c) a statement (i) that, in the opinion of such person, such person has made or caused to be made such examination or investigation as is necessary to enable such person to express an informed opinion with respect to the subject matter or (ii) that such person has made or caused to be made such person’s examination or investigation with respect to the subject matter in accordance with specified professional standards; and (d) a statement as to whether, in the opinion of such person, such provision has been complied with. Any such certificate or opinion made or given by an officer or employee of the District may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an accountant or an independent consultant, unless such officer or employee knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based is erroneous. Any such certificate or opinion made or given by counsel, an accountant or an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the District) upon a certificate or opinion of or representation by an officer or employee of the District, unless such counsel, accountant or independent consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person’s certificate or opinion or representation may be based is erroneous. The same officer or employee of the District, or the same counsel or accountant or independent consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Resolution, but different officers, employees, counsel, accountants or independent consultants may certify to different matters, respectively.

ARTICLE II
THE CONSOLIDATED SYSTEM

Section 2.1. Continuation of the Consolidated System. Pursuant to the Senior Consolidated System Resolution, the District has provided for the continuation of the consolidation of its Distribution Division, Lake Chelan System, Water System and Wastewater System, and pursuant to the Fiber Optics Resolution has provided for the establishment of the Fiber Optic System as part of the Consolidated System, and the Commission hereby finds and determines that it is in the public interest and to the District's advantage to ratify, approve and confirm said consolidation of the Distribution Division, the Lake Chelan System, the Water System, the Wastewater System and the Fiber Optics System into a single system known as the "Consolidated System." Such systems were and shall continue to be, upon retirement of all of the Senior Consolidated System Bonds, consolidated and combined into a single system for the generation, transmission and distribution of electric power and energy, for the acquisition, storage, treatment and distribution of water, for the collection, treatment and disposal of wastewater, and for the provision of fiber optics networks services, and for all other purposes determined by the District, but subject, however, to all the terms, limitations, restrictions and covenants of and existing liens and charges created and pledges made under and pursuant to each of the Original Resolutions. The District by resolution of the Commission may consolidate with and add to the Consolidated System at any time any other separate utility system of the District, and any other facilities or systems of the District which the District is authorized by law to own and operate.

Section 2.2. Discontinuance of Consolidation of Rock Island System and Rocky Reach System. The Commission hereby deems it advisable and to the benefit of the District not to consolidate the Columbia River-Rock Island Hydro-Electric System and the Rocky Reach Hydro-Electric System into the Consolidated System, and therefore hereby elects to discontinue and terminate any such consolidation, subject to the terms and provisions of the Senior Consolidated System Resolution.

Section 2.3. Renaming of Chelan Hydro Consolidated System. The Chelan Hydro Consolidated System is hereby renamed the "Consolidated System," effective as of the date of adoption of this Resolution.

Section 2.4. Obligations of Existing Systems. Nothing contained herein shall prohibit any of the following:

(a) the issuance by the District of bonds, notes, warrants or other evidences of indebtedness, or the voluntary incurrence by the District of other indebtedness, payable from and secured by a lien on the revenues of the Rock Island System on a parity with or junior or inferior to the Rock Island Bonds for the purpose of acquiring, constructing or installing any additions, improvements or betterments to, or renewals, replacements or extensions of, or any property, facilities or rights, tangible or intangible, determined by the Commission to be beneficial to its ownership and operation

of, the Rock Island System and for the purpose of refunding any bonds, notes, warrants or other evidences of indebtedness issued or incurred for any of the foregoing purposes;

(b) the issuance by the District of bonds, notes, warrants or other evidences of indebtedness, or the voluntary incurrence by the District of other indebtedness, payable from and secured by a lien on the revenues of the Rocky Reach System on a parity with or junior or inferior to the Rocky Reach Bonds for the purpose of acquiring, constructing or installing any additions, improvements or betterments to, or renewals, replacements or extensions of, or any property, facilities or rights, tangible or intangible, determined by the Commission to be beneficial to its ownership and operation of, the Rocky Reach System and for the purpose of refunding any bonds, notes, warrants, or other evidences of indebtedness issued or incurred for any of the foregoing purposes; or

(c) the pledging, or placing a lien or charge on, the revenues of either the Water System or the Wastewater System on a parity with or superior to the lien of this Resolution for any lawful purpose of such systems.

Section 2.5. Application of Original Resolutions.

(a) So long as any Rock Island Bonds are Outstanding under the Rock Island Resolutions, the District's ownership and operation of the Rock Island System shall be subject to the terms of the Rock Island Resolutions, and the terms and provisions of this Resolution shall not be applicable to the extent inconsistent with the Rock Island Resolutions.

(b) So long as any Rocky Reach Bonds are Outstanding under the Rocky Reach Resolution, the District's ownership and operation of the Rocky Reach System shall be subject to the terms of the Rocky Reach Resolution, and the terms and provisions of this Resolution shall not be applicable to the extent inconsistent with the Rocky Reach Resolution.

(c) So long as any Senior Consolidated System Bonds are Outstanding under the Senior Consolidated System Resolution, the District's ownership and operation of the Consolidated System shall be subject to the terms of the Senior Consolidated System Resolution, and the terms and provisions of this Resolution shall not be applicable to the extent inconsistent with the Senior Consolidated System Resolution.

(d) The District's ownership and operation of the Water System and the Wastewater System shall be subject to the terms of any Water System Resolution or Wastewater System Resolution, respectively, and the terms and provisions of this Resolution shall not be applicable to the Water System or the Wastewater System to the extent inconsistent with any Water Supply Resolution or Wastewater System Resolution, respectively.

Section 2.6. Prior Liens. The lien and charge of the Senior Consolidated System Bonds on Revenues and the obligation of the District to deposit Revenues into the bond funds established in the Senior Consolidated System Resolution have priority over the lien and charge of the Bonds on Revenues. Notwithstanding anything to the contrary contained in this Resolution, any separate money, assets or security other than Revenues pledged to or provided for a Series of Bonds shall be security only for such Series of Bonds and shall not be available for payment of the Senior Consolidated System Bonds or any other Series of Bonds issued pursuant to the terms of this Resolution except as may be provided in any Supplemental Resolution.

**ARTICLE III
AUTHORIZATION AND GENERAL TERMS AND PROVISIONS OF THE
BONDS**

Section 3.1. Authorization of Bonds. There is hereby created and established an issue of revenue bonds of the District designated generally as “Public Utility District No. 1 of Chelan County, Washington, Consolidated System Revenue Bonds.” Bonds may be issued hereunder from time to time as the issuance thereof is authorized by the Commission by a Supplemental Resolution. The maximum principal amount of Bonds that may be issued hereunder is not limited; however, the Commission may by a Supplemental Resolution limit the aggregate principal amount of Bonds which may be issued or Outstanding hereunder. Each Series of Bonds shall bear such separate or additional designation as may be necessary or appropriate to distinguish such Series from other Series of Bonds. The Bonds shall be issued in such Series as from time to time shall be authorized by the Commission pursuant to a Supplemental Resolution, subject to the covenants, provisions and conditions contained therein and herein.

Section 3.2. Payment of Bonds. The Principal, Purchase Price and Redemption Price of and interest on the Bonds shall be payable in lawful money of the United States of America. If any Principal, Purchase Price or Redemption Price of or interest on any Bond is not paid when due, then the overdue Principal, Purchase Price, Redemption Price and interest shall bear interest until paid at the same rate set forth in such Bond.

Section 3.3. Execution and Authentication of Bonds. Except as otherwise provided in the Supplemental Resolution authorizing the issuance thereof, each Series of Bonds shall be executed on behalf of the District with the manual or facsimile signature of the President and the Secretary of the Commission, and shall have the seal of the District, or a facsimile thereof, printed or reproduced thereon. Only such Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in Appendix A, manually executed by the Trustee, shall be entitled to any right or benefit under this Resolution. Such certificate of authentication on any Bond shall be conclusive evidence that the Bond has been duly issued and is secured by the provisions of this Resolution and the Supplemental Resolution pursuant to which such Bond is issued. In case any officer whose signature or a facsimile of whose signature shall appear on any

Bond shall cease to be such officer before the delivery of such Bond, such signature or facsimile shall nevertheless be valid and sufficient for all purposes as if such officer had remained in office until such delivery.

Section 3.4. Form of Bonds. Each Series of Bonds shall be in such form as shall be set forth in the Supplemental Resolution authorizing the issuance thereof.

Section 3.5. Registration of Transfer and Exchange of Bonds. The Trustee shall act as the initial Bond Registrar and in such capacity shall maintain the Bond Register for the registration and transfer of Bonds. Upon surrender of any Bonds at the office of the Trustee, together with an assignment duly executed by the current Owner of such Bonds or such Owner's duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, such Bonds may, at the option of the Owner, be exchanged for an equal aggregate principal amount of Bonds of the same Series and maturity, of authorized denominations and bearing interest at the same rate and in the same form as the Bonds surrendered for exchange, registered in the name or names requested by the assignee of the then Owner; provided, that the Trustee is not required to exchange or register the transfer of Bonds after the giving of notice calling such Bond for redemption, in whole or in part. The District shall execute and the Trustee shall authenticate any Bonds whose execution and authentication is necessary to provide for exchange of Bonds pursuant to this Section and the District may rely on a representation from the Trustee that such execution is required. Any exchange or registration of transfer of Bonds shall be at the expense of the District, except that the Trustee may make a charge to any Owner requesting such exchange or registration in the amount of any tax or other governmental charge required to be paid with respect thereto.

Section 3.6. Persons Treated as Owners. Prior to due presentment for registration of transfer of any Bond, the Trustee shall treat the Person shown on the Bond Register as owning a Bond as the Owner and the Person exclusively entitled to payment of Principal, Purchase Price or Redemption Price thereof, and interest thereon and, except as otherwise expressly provided herein, the exercise of all other rights and powers of the owner thereof, and neither the District, the Trustee nor any agent of the District or the Trustee shall be affected by notice to the contrary.

Section 3.7. Temporary Bonds. Prior to the preparation of definitive Bonds the District may issue temporary Bonds in registered form and in such denominations as the District may determine but otherwise in substantially the form provided for such definitive Bonds with appropriate variations, omissions and insertions. The District shall promptly prepare, execute and deliver to the Trustee before the first interest payment date for such Bonds, definitive Bonds and, upon presentation and surrender of Bonds in temporary form, the Trustee shall authenticate and deliver in exchange therefor definitive Bonds the same maturity for the same aggregate principal amount. Until exchanged for definitive Bonds, Bonds in temporary form shall be entitled to the lien and benefit of this Resolution and the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part.

Section 3.8. Mutilated, Lost or Destroyed Bonds. If any Bond has been mutilated, lost or destroyed, the District shall execute, and the Trustee shall authenticate and deliver to the Owner, a new Bond of like date and tenor in exchange and substitution for, and upon cancellation of, such mutilated Bond or in lieu of and in substitution for such lost or destroyed Bond but only if the Owner has paid the reasonable expenses and charges of the District and the Trustee in connection therewith and, in the case of a lost or destroyed Bond, (a) filed with the Trustee evidence satisfactory to the Trustee that such Bond was lost or destroyed and (b) furnished to the Trustee and the District indemnity satisfactory to each. If any such Bond has matured or been called for redemption and is payable, instead of issuing a new Bond the Trustee may pay the same without issuing a replacement Bond. If, after the delivery of such replacement Bond, the original Bond in lieu of which such replacement Bond was issued is presented for payment or registration, the Trustee shall seek to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom and shall be entitled to recover from the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Trustee or the District in connection therewith.

Section 3.9. Cancellation and Disposition of Bonds. The District may deliver Bonds to the Trustee for cancellation at any time and for any reason and the Trustee is hereby authorized to cancel such Bonds. All Bonds that have been paid or delivered to the Trustee for cancellation shall not be reissued. Unless otherwise directed by the District, the Trustee shall treat such Bonds in accordance with its document retention policies or as may be directed by State law.

Section 3.10. Securities Depository Provisions.

(a) Except as otherwise provided in the Supplemental Resolution authorizing the issuance thereof, each Series of Bonds shall be Book-Entry Bonds initially registered in the name of Cede & Co., as nominee of DTC.

(b) All payments of Principal, Purchase Price and Redemption Price of and interest on the Book-Entry Bonds and all notices with respect thereto, including notices of full or partial redemption, shall be made and given at the times and in the manner set forth in the Letter of Representations. The terms and provisions of the Letter of Representations shall govern in the event of any inconsistency between the provisions of this Resolution and the Letter of Representations. The Letter of Representations may be amended without Owner consent.

(c) The book-entry registration system for a Series of Book-Entry Bonds may be terminated and certificates delivered to and registered in the name of the Beneficial Owners, under either of the following circumstances: (i) the Securities Depository notifies the District and the Trustee that it is no longer willing or able to act as Securities Depository for such Series of Book-Entry Bonds and a successor Securities Depository for such Series of Book-Entry Bonds is not appointed by the District prior to the effective date of such discontinuation; or (ii) the District determines that continuation

of the book-entry system through the Securities Depository is not in the best interest of the District or the Beneficial Owners of such Series of Bonds.

(d) In the event a successor Securities Depository is appointed by the District, such Series of Book-Entry Bonds will be registered in the name of such successor Securities Depository or its nominee. In the event certificates are required to be issued to Beneficial Owners, the Trustee and the District shall be fully protected in relying upon a certificate of the Securities Depository or any participant of the Securities Depository as to the identity of and the principal amount of Book-Entry Bonds held by such Beneficial Owners.

(e) The Beneficial Owners will not receive physical delivery of certificates except as provided herein. All Book-Entry Bonds shall be registered in the name of the Securities Depository or its nominee, all transfers of beneficial ownership interests in Book-Entry Bonds will be made in accordance with the rules of the Securities Depository, and no Person purchasing, selling or otherwise transferring beneficial ownership interests in Book-Entry Bonds will receive, hold or deliver any certificate representing such beneficial ownership interests. The District and the Trustee shall have no responsibility or liability for transfers of beneficial ownership interests in Book-Entry Bonds.

(f) The District and the Trustee will recognize the Securities Depository or its nominee as the Owner of Book-Entry Bonds for all purposes, including receipt of payments, notices and voting; provided, that the Trustee may recognize votes by or on behalf of Beneficial Owners as if such votes were made by Owners of a related portion of the Bonds when such votes are received in compliance with an omnibus proxy of the Securities Depository or otherwise pursuant to the rules of the Securities Depository or the provisions of the Letter of Representations or other comparable evidence delivered to the Trustee.

(g) The District and the Trustee shall be entitled to treat the Person in whose name a Book-Entry Bond is registered as the absolute owner of such Book-Entry Bond for all purposes of this Resolution, and neither the Issuer, the Borrower nor the Trustee shall have any responsibility or obligation to any Beneficial Owner of such Book-Entry Bond. Without limiting the immediately preceding sentence, neither the District nor the Trustee shall have any responsibility or obligation with respect to (i) the accuracy of the records of any Securities Depository or any other Person with respect to any ownership interest in Book-Entry Bonds, (ii) the delivery to any Person, other than an Owner, of any notice with respect to Book-Entry Bonds, including any notice of redemption or refunding, (iii) the selection of the particular Bonds or portions thereof to be redeemed or refunded in the event of a partial redemption or refunding of part of the Bonds Outstanding or (iv) the payment to any Person, other than an Owner, of any amount with respect to the Principal, Purchase Price or Redemption Price of or interest on Book-Entry Bonds.

Section 3.11. Disposition of Unclaimed Funds. Notwithstanding any provisions of this Resolution, and subject to applicable unclaimed property laws, any money deposited with the Trustee in trust for the payment of the Principal, Purchase Price or Redemption Price of or interest on the Bonds remaining unclaimed for two (2) years after the payment thereof, to the extent permitted by applicable law, shall be paid to District for credit to the Consolidated System, whereupon all liability of the Trustee with respect to such money shall cease, and the Owners of such Bonds shall thereafter look solely to the District for payment of any amounts then due. All moneys held by the Trustee and subject to this Section shall be held uninvested without liability for interest thereon.

ARTICLE IV ISSUANCE OF BONDS

Section 4.1. Series of Bonds; Terms of Supplemental Resolutions.

(a) The Commission may from time to time by Supplemental Resolution authorize one or more Series of the Bonds, and the District may issue and the Trustee shall authenticate and deliver to the purchasers thereof any Bonds so authorized, in such principal amount as shall be determined by the Commission, but only upon compliance by the District with the provisions of this Resolution and any additional requirements set forth in such Supplemental Resolution.

(b) A Supplemental Resolution authorizing a Series of Bonds shall specify (or provide the method for specifying) for such Series of Bonds, among other things: (i) the authorized principal amount and distinguishing designation; (ii) the general purpose or purposes for which such Series of Bonds are being issued, and the deposit, disbursement and application of the sale proceeds; (iii) the dated date or dates and the maturity date or dates, the principal amount maturing on each maturity date, any Mandatory Sinking Fund Payments and the interest payment date or dates; (iv) which of such Series of Bonds are Capital Appreciation Bonds, Current Interest Bonds and Term Bonds; (v) the interest rate or rates (which may be a rate of zero); (vi) the authorized denominations of and the manner of dating and numbering such Series of Bonds; (vii) the method and place or places of payment of the Principal, Purchase Price and Redemption Price of and interest on, such Series of Bonds; (viii) any permitted or required variations, legends, omissions and insertions in the form or forms of such Series of Bonds; (ix) the terms and conditions, if any, for the redemption of such Series of Bonds prior to maturity, including the date or dates fixed for redemption, the Redemption Price or Prices, whether such redemption is subject to rescission and other applicable redemption terms; (x) the terms and conditions, if any, for the optional or mandatory tender for purchase of such Series of Bonds prior to maturity, including the purchase date or dates, the Purchase Price or Prices and other applicable terms; (xi) the authorization of and any terms and conditions with respect to any Reserve Account Credit Facility or Facilities for such Series of Bonds; (xii) the pledge or provision of money, assets or security other than Revenues to or for the payment of such Series of Bonds or any portion thereof; (xiii) the

creation and maintenance of one or more special funds or accounts, if any, to provide for the payment or purchase of such Series of Bonds and the application of money therein; (xiv) the tender agents, remarketing agents, auction agents and broker-dealers, if any, and the duties and obligations thereof; and (xv) any other provisions which the Commission deems necessary or desirable in connection with such Series of Bonds and not inconsistent with the terms of this Resolution.

Section 4.2. Limitations on Issuance of Bonds. The District will not hereafter create any special fund or funds for payment of revenue bonds, notes or other obligations for borrowed money or issue or incur any such obligations or create any additional indebtedness that will rank on a parity with or in priority over the pledge of and charge and lien on the Revenues or of the payments into the Bond Funds and Reserve Fund established hereunder for the payment of the Bonds; provided, that Bonds may be issued and Payment Agreements may be entered into payable from the Revenues on a parity with the Bonds hereby authorized, and secured by an equal pledge of and charge and lien on such Revenues in accordance with the provisions of this Resolution for any lawful purpose of the District.

Section 4.3. Conditions for the Issuance of Bonds. Each Series of Bonds shall be executed by the District and delivered to the Trustee and thereupon authenticated by the Trustee and delivered to the District or upon its order, but only (except with respect to Refunding Bonds) upon receipt by the Trustee of the following:

(a) A copy of this Resolution, including the Supplemental Resolution authorizing the issuance of the Bonds such Series, certified by the Secretary of the Commission;

(b) A written opinion of Bond Counsel to the effect that (i) such Series of Bonds are valid and binding limited obligations of the District enforceable against the District in accordance with their terms and (ii) the Resolution, including the Supplemental Resolution authorizing the issuance of such Series of Bonds, is a valid and binding obligation of the District enforceable in accordance with its terms; provided, that such opinions may be qualified to the extent that the enforceability of the Bonds and the Resolution, including the Supplemental Resolution authorizing the issuance of such Series of Bonds, may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles;

(c) An Order of the District as to the delivery of such Series of Bonds;

(d) A Certificate of the District stating that (i) no Event of Default, nor any event or condition which with notice and/or the passage of time would constitute an Event of Default, has occurred and is continuing under this Resolution as of the date of issuance of such Series of Bonds and (ii) the issuance of such Series of Bonds, in and of itself, will not cause an Event of Default under this Resolution;

(e) The deposit into the Reserve Account for such Series of Bonds of money, Authorized Investments, a Reserve Account Credit Facility or Facilities or any combination of the foregoing in an aggregate amount equal to the Reserve Requirement, if any, for such Series of Bonds; and

(f) The document specified in Section 4.4.

Section 4.4. Additional Bonds Certification.

(a) In connection with the issuance of a Series of Bonds, the requirements of subsection (f) of Section 4.3 or of paragraph (ii) of subsection (b) of Section 4.5 may be fulfilled by either:

(i) A Certificate of the District stating that, in each of the first three (3) full Fiscal Years following the last Fiscal Year during which any proceeds of the Bonds are scheduled to be used for the purpose of paying interest on such Series of Bonds, Adjusted Net Revenues as projected:

A. Plus Available Funds, will be at least 1.25 times the projected Annual Debt Service on the Outstanding Bonds and Senior Consolidated System Bonds, after giving effect to the issuance of such Series of Bonds, and

B. Excluding Available Funds, will be at least 1.00 times the projected Annual Debt Service on the Outstanding Bonds and Senior Consolidated System Bonds, plus required deposits, if any, into the Reserve Fund and any debt service reserve fund for the Senior Consolidated System Bonds, after giving effect to the issuance of such Series of Bonds; or

(ii) A Certificate of the District stating that Adjusted Net Revenues for any twelve (12) consecutive months of the 24 months prior to the date of calculation:

A. Plus Available Funds, were at least 1.25 times the projected Annual Debt Service on the Outstanding Bonds and Senior Consolidated System Bonds, after giving effect to the issuance of such Series of Bonds, and

B. Excluding Available Funds, were at least 1.00 times the projected Annual Debt Service on the Outstanding Bonds and Senior Consolidated System Bonds, plus required deposits, if any, into the Reserve Fund and any debt service reserve fund for the Senior Consolidated System Bonds, after giving effect to the issuance of such Series of Bonds.

(b) For purposes of paragraph (a)(ii) of this Section, the following adjustments may be made to Net Revenues for the latest Fiscal Year for which audited financial statements of the District are available, if so stated in the Certificate of the District:

(i) An allowance for additional Revenues anticipated from any additions, extensions and improvements to the Consolidated System to be acquired or constructed from proceeds of such or a prior Series of Bonds, and for any changes in Operation and Maintenance Expenses resulting therefrom, that are not reflected in Net Revenues for such Fiscal Year, but only if such additional Revenues and changes in Operation and Maintenance Expenses represent a full twelve (12) months' change in Net Revenues attributable to such additions, extensions and improvements; and

(ii) An allowance for additional Revenues attributable to any increase in the rates and charges imposed by the District that (A) was in effect prior to the issuance of such Series of Bonds but which, during all or part of such Fiscal Year, was not in effect, or (B) was adopted by the Commission prior to the issuance of such Series of Bonds and will be in effect within 90 days after such issuance, but in either case only if such additional Revenues represent a full twelve (12) months' change in Net Revenues attributable to such increase in rates and charges.

(c) The District shall include in any Certificate delivered pursuant to paragraph (a)(i) of this Section a description of the assumptions, analyses, methodologies, and statistical and other information from the District or third persons used in producing its projections of Adjusted Net Revenues.

Section 4.5. Conditions for Issuance of Refunding Bonds.

(a) A Series of Refunding Bonds may be issued by the District to provide funds sufficient for the payment of any or all of the following:

(i) The Principal, Purchase Price or Redemption Price of the Bonds or Original Bonds to be refunded;

(ii) All expenses incident to the purchase, call, redemption, retirement or payment of the Bonds or Original Bonds to be refunded;

(iii) The costs of issuance of such Series of Refunding Bonds;

(iv) Interest on the Bonds or Original Bonds to be refunded to the date such Bonds or Original Bonds will be purchase, redeemed, retired or paid;

(v) Interest on such Series of Refunding Bonds from the date thereof to the date of purchase, redemption, retirement or payment of the Bonds or Original Bonds to be refunded; and

(vi) Any other lawful payment obligations, costs or expenses in connection with the issuance of the Refunding Bonds and the purchase, redemption, retirement or payment of the Bonds or Original Bonds to be refunded.

(b) A Series of Refunding Bonds may be issued by the District only upon receipt by the Trustee of the following:

(i) The documents specified in subsections (a), (b), (c) and (e) of Section 4.3;

(ii) Either (A) the document specified in Section 4.4, or (B) a Certificate of the District stating that the issuance of such Series of Refunding Bonds (1) will not result in an increase in Annual Debt Service on the Bonds and the Senior Consolidated System Bonds (excluding for purposes of this Subsection 4.5(b)(i) paragraph (a)(v) of such definition) greater than \$1,000,000 in any Fiscal Year that such Series of Refunding Bonds is scheduled to be Outstanding, and (2) is reasonably expected to result in net present value savings to the District calculated using a discount rate equal to the yield to maturity on the Refunding Bonds;

(iii) If any of the Bonds or Original Bonds to be refunded are to be purchased or redeemed prior to their stated maturity dates, irrevocable instructions (A) to the Trustee to give the applicable notice of purchase or redemption of such Bonds or (B) to the trustee for the owners of such Original Bonds to give the applicable notice of purchase or redemption of such Original Bonds; and

(iv) An opinion of Bond Counsel that (A) all liability of the District in respect of the Bonds to be refunded has ceased, terminated and been discharged, pursuant to the terms of this Resolution and the Supplemental Resolution pursuant to which such Bonds were issued, and the Owners of such Bonds are entitled to payment of the Principal, Purchase Price or Redemption Price of and interest on such Bonds only out of the money or securities deposited with the Trustee for the payment of such Bonds or (B) all liability of the District in respect of the Original Bonds to be refunded has ceased, terminated and been discharged, pursuant to the terms of the resolution or resolutions pursuant to which such Original Bonds were issued, and the owners of such Original Bonds are entitled to payment of the principal, purchase price or redemption price of and interest on such Original Bonds only out of the money or securities deposited with the trustee for the owners of such Original Bonds for the payment of such Original Bonds.

Section 4.6. No Additional Senior Obligations. The District covenants and agrees that it shall not issue any additional Senior Consolidated System Bonds under the Senior Consolidated System Resolution.

Section 4.7. Subordinate Obligations. Nothing in this Resolution shall prohibit the issuance by the District of Subordinate Obligations.

Section 4.8. Application of Proceeds. Proceeds of each Series of Bonds shall be applied as provided in the Supplemental Resolution pursuant to which such Series of Bonds is authorized. All Bonds paid, purchased, redeemed or retired from proceeds of the sale of Refunding Bonds, and all Bonds surrendered to the Trustee against the issuance of Refunding Bonds, shall be forthwith cancelled and, unless otherwise provided in the Supplemental Resolution authorizing the issuance thereof, shall not be reissued.

ARTICLE V REDEMPTION OF BONDS

Section 5.1. Terms of Redemption. No Bond may be called for redemption by the District except as provided herein and in the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part.

Section 5.2. Selection of Bonds for Redemption. Except as otherwise provided in the Supplemental Resolution authorizing the issuance thereof, if less than all of a Series of Bonds are called for redemption, they shall be redeemed from maturities in such order as determined by the District, and by lot within any maturity subject to selection by the Trustee as provided below; provided, that if an Event of Default has occurred and is continuing any Bonds called for redemption shall be redeemed in proportion by maturity and within maturities by lot. The portion of any Bond to be redeemed shall be an authorized denomination and in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by the minimum authorized denomination thereof. If a portion of a Bond shall be called for redemption, a new Bond in principal amount equal to the unredeemed portion thereof shall be issued to the Owner upon the surrender thereof. If for any reason the principal amount of Bonds called for redemption would result in a redemption of Bonds less than the authorized denomination, the Trustee, to the extent possible within the principal amount of Bonds to be redeemed, is hereby authorized to adjust the selection of Bonds for such purpose in order to minimize any such redemption. Notwithstanding the foregoing, the Securities Depository for Book-Entry Bonds shall select the Bonds for redemption within particular maturities according to its stated procedures.

Section 5.3. Notice of Redemption.

(a) Notice of the redemption of Bonds (or portions thereof) shall be given as set forth in this Section unless otherwise provided in the Supplemental Resolution authorizing the issuance thereof.

(b) When Bonds (or portions thereof) are to be redeemed, the District shall give or cause to be given notice of the redemption of such Bonds to the Trustee no later than 45 days prior to the redemption date or such shorter time as may be acceptable to the Trustee. In the case of an optional redemption, the notice may state that such redemption is a Conditional Redemption, and such notice and optional redemption shall be of no effect if such money is not so deposited or if the notice is rescinded as described in

subsection (e) of this Section. The Trustee, at the expense of the District, shall send notice of any redemption, identifying the Bonds to be redeemed, the redemption date and the method and place of payment and the information required by subsection (c) of this Section, by first class mail to each Owner of a Bond called for redemption to the Owner's address set forth on the Bond Register. Unless otherwise provided in the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part, such notice shall be sent by the Trustee by first class mail between 30 and 60 days prior to the scheduled redemption date. With respect to Book-Entry Bonds, if the Trustee sends notice of redemption to the Securities Depository pursuant to the Letter of Representations, the Trustee shall not be required to give the notice set forth in the immediately preceding sentence. If notice is given as stated in this subsection, failure of any Owner to receive such notice, or any defect in the notice, shall not affect the redemption or the validity of the proceedings for the redemption of the Bonds.

(c) In addition to the foregoing, the redemption notice shall contain with respect to each Bond being redeemed, (i) the CUSIP number, (ii) the date of issue, (iii) the interest rate, (iv) the maturity date and (v) any other descriptive information determined by the Trustee to be needed to identify the Bonds. If a redemption is a Conditional Redemption, the notice shall so state. The Trustee shall also send each notice of redemption at least 30 days (or such shorter period as may be otherwise provided in the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part) before the redemption date to (A) any securities credit rating agency then rating the Bonds to be redeemed; (B) all of the registered clearing agencies known to the Trustee to be in the business of holding substantial amounts of bonds of a type similar to the Bonds; (C) one or more national information services that disseminate notices of redemption of bonds such services to be identified by the Trustee; and (D) the Beneficial Owners set forth on the Beneficial Owner Register.

(d) On or before the date fixed for redemption, subject to the provisions of subsections (b) and (e) of this Section, money shall be deposited with the Trustee to pay the Redemption Price of and accrued interest to the redemption date on the Bonds called for redemption. Upon the deposit of such money, unless the District has given notice of rescission as described in subsection (e) of this Section, the Bonds shall cease to bear interest on the redemption date and shall no longer be entitled to the benefits of this Resolution (other than for payment and transfer and exchange) and shall no longer be considered Outstanding.

(e) Any Conditional Redemption may be rescinded in whole or in part at any time prior to the redemption date if the District delivers a Certificate of the District to the Trustee instructing the Trustee to rescind the redemption notice. The Trustee shall give prompt notice of such rescission to the affected Owners. 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 District 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 prompt notice to the Securities Depository or the affected Owners that the redemption did not occur and that the Bonds called for redemption and not so paid remain Outstanding.

Section 5.4. Purchase at any Time. Nothing in this Resolution shall prevent the District from purchasing any Bonds or from delivering any Bonds to the Trustee for cancellation pursuant to Section 3.9. Term Bonds purchased pursuant to this Section may be credited against future Mandatory Sinking Fund Payments pursuant to the provisions of the Supplemental Resolution authorizing the issuance of such Term Bonds. The principal amount of Bonds to be redeemed by optional redemption under this Resolution may be reduced by the principal amount of Bonds purchased by the District and delivered to the Trustee for cancellation at least 45 days prior to the redemption date.

**ARTICLE VI
CONTINUATION OF REVENUE FUND; PLEDGE OF REVENUES;
CREATION OF FUNDS AND PAYMENTS THEREFROM; INVESTMENTS**

Section 6.1. Revenue Fund. The Revenue Fund is hereby continued so long as any Bonds are Outstanding. Upon and after the issuance of any Bonds pursuant to this Resolution, the District covenants and agrees that it will pay into the Revenue Fund as received all Revenues. The District further covenants and agrees that all Revenues shall be trust funds in the hands of the District and shall be used and applied as provided by this Resolution solely for the purpose of operating and maintaining the Consolidated System and paying all costs, charges and expenses in connection therewith and for the purpose of making repairs, renewals and replacements to the Consolidated System and constructing additions, betterments and extensions thereto, and for the purpose of paying the Senior Consolidated System Bonds, the Bonds, the Payment Agreement Payments and all other charges or obligations against the Revenues of whatever nature now or hereafter imposed thereon by law or contract.

Section 6.2. Pledge of Revenues.

(a) The Bonds are special limited obligations of the District payable from and secured by the Revenues, after payment of Operation and Maintenance Expenses. The Bonds shall not in any manner or to any extent constitute general obligations of the District or of the State of Washington, or of any political subdivision of the State of Washington. The Bonds are not a charge upon the general fund or upon any moneys or other property of the District or of the State of Washington, or of any political subdivision of the State of Washington, other than the Net Revenues. Neither the full faith and credit nor the taxing power of the District, of the State of Washington, or of any political subdivision of the State of Washington, are pledged to the payment of the Bonds. The Bonds shall not constitute indebtedness of the District within the meaning of the constitutional and statutory provisions and limitations of the State of Washington.

(b) The District hereby pledges and places a lien and charge upon the Revenues, after payment of Operation and Maintenance Expenses, in the order of priority

set forth in Section 6.4, to secure the payment of the Bonds and, to the extent permitted by law, Payment Agreement Payments and other payments due under Payment Agreements, in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of this Resolution permitting the application of such Revenues for the purposes and on the terms and conditions set forth therein and herein, and the Revenues, after payment of Operation and Maintenance Expenses, shall constitute a trust for the security and payment of the Bonds and Payment Agreement Payments and other payments due under Payment Agreements. The pledge of and lien and charge on the Revenues herein made shall be irrevocable until there are no Bonds Outstanding and until all Payment Agreement Payments and other payments due in accordance with the provisions of the Payment Agreements and this Resolution have been made. The pledge of and lien and charge on the Revenues and other money and obligations shall be valid and binding from the time made, and the Revenues so pledged and thereafter received by the District shall immediately be subject to the pledge, lien and charge hereof without any physical delivery or further act, and such pledge, lien and charge shall be valid and binding as against any parties having claims of any kind in tort, contract, or otherwise against the District irrespective of whether such parties have notice thereof.

(c) Notwithstanding the foregoing, the pledge, lien and charge of the Senior Consolidated System Bonds on Revenues and the obligation of the District to deposit Revenues into the bond funds established under to the Senior Consolidated System Resolution shall have priority over the pledge, lien and charge of the Bonds and Payment Agreement Payments on Revenues established hereunder.

Section 6.3. Equality of Security. In consideration of the acceptance of the Bonds by the Owners thereof from time to time, this Resolution shall be deemed to be and shall constitute a contract between the District and the Owners from time to time of the Bonds, and the covenants and agreements herein set forth to be performed by or on behalf of the District shall be for the equal and proportionate benefit, security and protection of all Owners, without preference, priority or distinction as to security or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation thereof or for any cause whatsoever, except as expressly provided therein or herein. Notwithstanding the foregoing, nothing herein shall prevent additional security being provided for a particular Series of Bonds under any Supplemental Resolution.

Section 6.4. Flow of Funds. Revenues deposited in the Revenue Fund shall be disbursed in the following order of priority:

(a) First, for the payment of Operation and Maintenance Expenses;

(b) Second, (i) for the payment of the principal of and interest and redemption premium, if any, on any Senior Consolidated System Bonds; (ii) for deposit into a reserve fund securing any Senior Consolidated System Bonds; (iii) for Payment Agreement Payments pursuant to Payment Agreements entered into by the District with

respect to any Senior Consolidated System Bonds; and (iv) for payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal of or interest on any Senior Consolidated System Bonds; in each case in any order of priority within this paragraph (b) established by the Consolidated System Resolution;

(c) Third, for deposit in the Interest Account of each Bond Fund under Section 6.5;

(d) Fourth, for deposit in the Bond Retirement Account of each Bond Fund under Section 6.5;

(e) Fifth: for deposit in the Reserve Fund under Section 6.6;

(f) Sixth, (i) for the payment of the principal of and interest and redemption premium, if any, on any Subordinate Obligations; (ii) for deposit into a reserve fund securing any Subordinate Obligations; (iii) for Payment Agreement Payments pursuant to Payment Agreements entered into by the District with respect to any Subordinate Obligations; and (iv) for payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal of or interest on any Subordinate Obligations; in each case in any order of priority within this paragraph (e) which may be hereafter established by the District by resolution;

(g) Seventh, for any payment due under a Payment Agreement that does not constitute a Payment Agreement Payment;

(h) Eighth, for any payment due under a Power Purchase Agreement that does not constitute an Operation and Maintenance Expense; and

(i) Ninth, for any other lawful purpose of the Consolidated System, in any order of priority which may be hereafter established by the District by resolution.

Notwithstanding the foregoing, so long as any Senior Consolidated System Bonds are Outstanding, the obligation of the District to deposit Revenues into the bond funds established under the Senior Consolidated System Resolution shall have priority over the foregoing obligation of the District to deposit Revenues into the Bond Funds and the Reserve Fund.

Section 6.5. Bond Funds.

(a) There is hereby created for each Series of Bonds a special fund of the District to be known as the "Consolidated System Revenue Bonds, Series _____ Bond Fund" (each, a "Bond Fund"). Each Bond Fund and the accounts therein shall be held

and administered by the Trustee appointed as provided for in Section 10.1, and shall be used solely for the purpose of paying the Bonds of the related Series in the manner herein provided. The District obligates and binds itself irrevocably to set aside and to pay to the Trustee (to the extent not otherwise provided) out of the Revenues, after payment of Operation and Maintenance Expenses, in trust for the account of the Bond Fund, certain fixed amounts, without regard to any fixed proportion of the Revenues, after payment of Operation and Maintenance Expenses, sufficient to pay the Bonds of the related Series issued pursuant to this Resolution and the Supplemental Resolution authorizing the issuance thereof and from time to time Outstanding as the same respectively become due and payable. Such fixed amounts to be paid to the Trustee and deposited into the related Bond Fund shall be a charge and lien upon the Revenue Fund and payable therefrom as set forth in this Section.

(b) There is hereby created an Interest Account in each Bond Fund. Promptly upon receipt thereof the Trustee shall deposit in the Interest Account money received by the District as accrued interest on the Bonds of the related Series. The District shall pay or cause to be paid to the Trustee for deposit into such Interest Account such amounts, taking into account amounts then on deposit in such Interest Account, as shall be necessary to pay the interest on such Series of Bonds as the same shall become due. The money in such Interest Account shall be applied by the Trustee on the date upon which any such interest or payment is due and in amounts sufficient to pay such interest or payment.

(c) There is hereby created a Capitalized Interest Account in each Bond Fund for each Series of Bonds for which a portion of the proceeds of sale of such Series of Bonds or other available funds of the District, if any, are to be used for the purpose of paying interest on such Series of Bonds. Upon the issuance, sale and delivery of such Series of Bonds, the District shall pay or cause to be paid to the Trustee for deposit into the Capitalized Interest Account for such Series of Bonds such portion of the proceeds of sale or such other available funds, if any. Money in the Capitalized Interest Account for such Series of Bonds shall be applied by the Trustee to the extent available for the purpose of paying interest on such Series of Bonds during the period specified in the Supplemental Resolution authorizing the issuance thereof. On or before the date on which interest on such Series of Bonds becomes due and payable, the Trustee shall transfer from the Capitalized Interest Account for such Series of Bonds to the Interest Account for such Series of Bonds an amount which, together with any money theretofore received or held by the Trustee for such purpose, shall be sufficient to pay the interest on such Series of Bonds coming due on such date.

(d) There is hereby created a Bond Retirement Account in each Bond Fund. The District shall pay or cause to be paid to the Trustee for deposit into such Bond Retirement Account such amounts, taking into account amounts then on deposit in the Bond Retirement Account, as shall be necessary to pay the Mandatory Sinking Fund Payments and Principal of such Series of Bonds as the same shall become due. The money in such Bond Retirement Account shall be applied by the Trustee on the date upon

which any such Mandatory Sinking Fund Payments or Principal is due and in amounts sufficient to pay such Mandatory Sinking Fund Payments or Principal.

(e) Each Bond Fund shall be drawn upon for the sole purpose of paying the Principal, Mandatory Sinking Fund Payments and Redemption Price of and interest on the Bonds of the related Series. Money set aside with the Trustee for the payment of such Principal, Mandatory Sinking Fund Payments, Redemption Price and interest shall be held in trust equally and ratably for the Owners or Qualified Counterparties in respect of which the same shall have been so set aside. Each Series of Bonds and the interest thereon shall be a valid claim of the Owners thereof only against the Bond Fund for such Series of Bonds (and the Reserve Account for such Series of Bonds, if such Series of Bonds are secured by a Reserve Account) and the amount of the Revenues pledged to such Bond Fund (and, if applicable, such Reserve Account), and shall constitute a prior charge over all other charges or claims whatsoever against the Bond Fund (and, if applicable, such Reserve Account) for such Series of Bonds.

(f) If at any time there shall be insufficient money in the Revenue Fund to make the payments required to be made into the respective Bond Funds, the District shall make payments to the Trustee for deposit into such Bond Funds in the same ratio as the initial Principal amount of each Series of Bonds then Outstanding bears to the aggregate initial Principal amount of all Series of Bonds then Outstanding. If in any month there is a failure for any reason to pay into any Bond Fund for credit to the Interest Account or the Bond Retirement Account the amounts prescribed above, the amount of any such deficiency shall be added to the amount otherwise required to be paid into the Bond Fund for credit to the Interest Account or the Bond Retirement Account during the succeeding month or months.

(g) Whenever the assets of the Bond Fund for a Series of Bonds (together, if such Series of Bonds are secured by a Reserve Account, with the assets of such Reserve Account allocable to such Series of Bonds) shall be sufficient to provide money to pay all Bonds of such Series then Outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further payments need be made into the Bond Fund or such Reserve Account for such Series of Bonds.

(h) Anything herein to the contrary notwithstanding, if and to the extent provided in a Supplemental Resolution, (i) deposits may be made by the District into the Bond Fund and the accounts therein for the purpose of providing for Payment Agreement Payments with respect to Bonds of a Series, (ii) Payment Agreement Receipts may be deposited into the Bond Fund and the accounts therein, (iii) Payment Agreement Payments may be made out of the Bond Fund and the accounts therein, (iv) Payment Agreement Payments may be secured by amounts in the related Reserve Account in the Reserve Fund, and (v) the Qualified Counterparty may be granted a pledge of, lien on and security interest in such Bond Fund to secure such Payment Agreement Payments.

Section 6.6. Reserve Fund.

(a) There is hereby created a special fund of the District to be known as the "Consolidated System Revenue Bonds Reserve Fund" (the "Reserve Fund"). The Reserve Fund and the Reserve Accounts therein shall be held and administered by the Trustee appointed as provided for in Section 10.1, and shall be used solely for the purpose of paying the Bonds and the Payment Agreement Payments, if any, secured by the Reserve Accounts in the manner provided herein. The District obligates and binds itself irrevocably to set aside and to pay to the Trustee (to the extent not otherwise provided) out of the Revenues, after payment of Operation and Maintenance Expenses and required deposits into the Bond Funds, in trust for the account of the respective Reserve Accounts, certain fixed amounts, without regard to any fixed proportion of the Revenues, after payment of Operation and Maintenance Expenses and required deposits into the Bond Funds, sufficient to make the balance in the Reserve Fund equal the aggregate Reserve Requirements of the Bonds secured by the Reserve Accounts. Such fixed amounts to be paid to the Trustee and deposited into the Reserve Fund shall be a charge and lien upon the Revenue Fund and payable therefrom as set forth in this Section.

(b) The District may establish one or more accounts in the Reserve Fund (each, a "Reserve Account"), each of which may secure one or more Series of Bonds or portion or portions thereof pursuant to the Supplemental Resolution or Resolutions authorizing the issuance thereof. Promptly upon receipt thereof the Trustee shall deposit in each Reserve Account proceeds of sale of each Series of Bonds or portion thereof to be secured thereby or other available money, Authorized Investments or Reserve Account Credit Facility or Facilities, or any combination of the foregoing, in an amount equal to the Reserve Requirement for such Series of Bonds or portion thereof.

(c) Each Reserve Account shall thereafter be maintained at all times at the aggregate Reserve Requirements of the Bonds secured by such Reserve Account by additional deposits into such Reserve Account from the Revenue Fund after payment of Operation and Maintenance Expenses and required deposits into the Bond Funds, until such time as the Principal or Redemption Price of the Bonds secured by such Reserve Account, together with interest thereon to the date of retirement or redemption, can be paid from amounts in the Bond Fund or Funds established for such Bonds, together with amounts in such Reserve Account. Each Reserve Account shall be replenished in the following priority: first, to make all payments required under all reimbursement agreements with the providers of Reserve Account Credit Facilities credited to such Reserve Account (and if there is not sufficient money on deposit in such Reserve Account to make all such payments, then on a pro rata basis to each provider); and second, after all such payments are made in full, the amount necessary to make the money, Authorized Investments, and Reserve Account Credit Facility or Facilities or any combination of the foregoing deposited in or credited to such Reserve Account equal to the aggregate Reserve Requirements of the Bonds secured by such Reserve Account. If at any time there is not sufficient money to make all of the foregoing payments, such payments shall be made to the extent of available money into each Reserve Account in

the same ratio as the Principal amount of the Outstanding Bonds secured thereby bears to the aggregate Principal amount of all Outstanding Bonds secured by the Reserve Fund.

(d) In the event of a deficiency in the Bond Fund for Bonds secured by a Reserve Account, the Trustee shall make up such deficiency from such Reserve Account in the following priority: first, by the withdrawal of cash held therein; second, by the sale or redemption of Authorized Investments held therein; and third, from draws upon the Reserve Account Credit Facility or Facilities credited thereto, on a pro rata basis, in sufficient amounts to make up such deficiency. Such draws shall be made at such times and under such conditions as provided in such Reserve Account Credit Facility or Facilities.

(e) At the option of the District, amounts on deposit in a Reserve Account may be substituted at any time, in whole or in part, by the deposit with the Trustee of a Reserve Account Credit Facility or Facilities in a stated amount equal to the amounts so substituted. Any amounts released from a Reserve Account as a result of such substitution shall be applied for any lawful purpose of the Consolidated System as provided in an Order of the District.

(f) Each Reserve Account may be drawn upon for the sole purpose of paying the Principal, Mandatory Sinking Fund Payments and Redemption Price of and interest on the Bonds and the Payment Agreement Payments, if any, relating to the Bonds secured by such Reserve Account. Money set aside from time to time with the Trustee for the payment of such Principal, Mandatory Sinking Fund Payments, Redemption Price, interest and/or Payment Agreement Payments, if any, shall be held in trust equally and ratably for the Owners or Qualified Counterparties in respect of which the same shall have been so set aside.

Section 6.7. Construction Funds. There is hereby created for each Series of Bonds a special fund of the District to be known as the "Consolidated System Revenue Bonds, Series ____ Construction Fund" (each, a "Construction Fund"). Each Construction Fund shall be held and administered by the District. Immediately upon the issuance, sale and delivery of a Series of the Bonds, the District shall pay or cause to be paid into the Construction Fund for such Series such amount of the proceeds derived from the sale of such Series of Bonds as shall be designated pursuant to the Supplemental Resolution authorizing the issuance thereof. Money so deposited in the Construction Fund shall be applied to the costs of issuance of such Series of Bonds and to the costs of acquiring and constructing the additions, betterments and improvements to, and repairs, renewals and replacements of, the Consolidated System or other lawful purposes of the Consolidated System to be funded out of the proceeds of such Series of Bonds.

Section 6.8. Payments from the Construction Funds. Each payment by the District from the Construction Fund shall constitute the representation of the District that (a) an obligation in such amount has been incurred by the District, (b) such obligation is a proper and reasonable charge against such Construction Fund, (c) such amount has not

been theretofore paid, (d) insofar as any such obligation was incurred for work, materials, equipment or supplies, such work was actually performed, or such materials, equipment or supplies were actually installed or delivered, or such amount is a progress payment due thereon and (e) there has not been filed with or served upon the District any notice of any lien, right to lien, or attachment upon or claim affecting the right to receive payment of such amount that has not been released or will not be released simultaneously with the payment of such amount.

Section 6.9. Rate Stabilization Fund.

(a) There is hereby created a special fund of the District to be known as the "Rate Stabilization Fund," to be held and administered by the District. The District shall transfer from the Revenue Fund into the Rate Stabilization Fund or from the Rate Stabilization Fund into the Revenue Fund such amounts, if any, as the District shall determine from time to time pursuant to this Section. If such transfer is made within 90 days after the end of a Fiscal Year, the District may allocate such transfer to the prior Fiscal Year rather than to the current Fiscal Year for purposes of Sections 4.4 and 8.3. Any deposits into such fund made prior to January 1, 2008, shall not be taken into account for purposes of determining Adjusted Net Revenues for the current or preceding Fiscal Years.

(b) The District may withdraw amounts from the Rate Stabilization Fund for any lawful purpose of the District in the event the Commission determines that it is necessary or desirable to do so for purposes of stabilizing rates and charges for retail customers of the Distribution Division.

Section 6.10. Rebate Funds.

(a) Unless otherwise provided pursuant to a Supplemental Resolution, there is hereby established a Rebate Fund for each Series of Tax-Exempt Bonds to be held and administered by the District as set forth in this Section. Moneys held in the Rebate Fund are hereby pledged to secure payments to the United States of America, and the District and the Owners of the Tax-Exempt Bonds shall have no rights in or claim to such moneys. The District shall maintain each Rebate Fund until the expiration of 60 days after the retirement of such Series of Tax-Exempt Bonds. Within 30 days after the end of each Computation Period, the District shall determine or cause to be determined the Rebate Amount attributable to each Rebate Fund for such Computation Period. Subject to the provisions of this Resolution, the District shall transfer from the Revenue Fund into the Rebate Fund money to the extent required to provide for any Rebate Amount the District has determined to exist. The Trustee shall not be responsible for calculating Rebate Amounts or for the adequacy or correctness of any rebate report.

(b) The District shall make payments from the money and Authorized Investments in each Rebate Fund to the United States and shall file with the Internal Revenue Service such forms and/or reports as required for such purpose at such times and

in such manner as shall required by the Code and the regulations promulgated thereunder by the United States Department of the Treasury.

ARTICLE VII INVESTMENT OR DEPOSIT OF FUNDS

Section 7.1. Deposits and Security Therefor. All money received by the Trustee under this Resolution for deposit in the Funds shall be considered trust funds pending their application as provided in this Resolution and shall be subject to a prior and paramount pledge, lien and charge in favor of the Owners of the Series of Bonds and Qualified Counterparties payable from or secured by each such Fund, and for the further security of such Series of Bonds until paid out or transferred as herein provided. All money on deposit with the Trustee shall be secured in the manner required by State or other applicable law. All security for deposits shall be perfected in such manner as may be required or permitted under applicable law in order to provide to the Trustee a perfected lien on and security interest in such security.

Section 7.2. Investment or Deposit of Funds.

(a) All money on deposit in the Funds shall be invested and reinvested by the Trustee or the District, as the case may be, in Authorized Investments that mature, or are subject to repurchase, withdrawal without penalty or optional redemption on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes hereof.

(b) All purchases or sales of Authorized Investments made by the Trustee shall be made at the direction of the District (given in writing or orally, confirmed in writing). In the absence of such direction, the Trustee shall invest all money on deposit in the Funds held by the Trustee in Government Securities.

(c) Any Authorized Investments held by the Trustee may be transferred by the Trustee, if required in writing by the District, from any of the Funds to any other Fund at the then current market value thereof without having to be sold and purchased or repurchased; provided, that after any such transfer or transfers, the Authorized Investments in each such Fund shall be in accordance with the provisions of this Resolution, and whenever any other transfer or payment is required to be made from any particular Fund, such transfer or payment shall be made from such combination of maturing principal, redemption premiums, liquidation proceeds and withdrawals of principal as the Trustee deems appropriate for such purpose.

(d) The Trustee shall not be accountable for any depreciation in the value of Authorized Investments or for any losses incurred upon any authorized disposition thereof.

(e) Subject to the foregoing, the Trustee is expressly authorized to invest money in two or more Funds in a single investment, provided that the portion of the

investment allocable to each such Fund, and all payments received with respect to such allocable portion, shall be applied in accordance with the applicable provisions governing such Fund hereunder.

Section 7.3. Valuation of Funds. The Trustee shall determine the market value of the Authorized Investments in each of the Funds held by the Trustee as of (a) the last day of each calendar quarter (or if such day is not a Business Day, the preceding Business Day) and (b) the date of issuance of each Series of Bonds. As soon as practicable after each such valuation date, the Trustee shall furnish to the District a report of the status of each Fund held by the Trustee as of such date. In computing the value of Authorized Investments in any Fund, Authorized Investments shall be valued at the fair market value thereof and shall include accrued but unpaid interest on each Authorized Investment.

ARTICLE VIII COVENANTS OF THE DISTRICT

The District hereby covenants and agrees with the Owners from time to time of the Bonds issued pursuant to this Resolution and any Supplemental Resolution as follows:

Section 8.1. Maintenance of Existence and Powers. The District shall at all times maintain its existence as a public utility district formed under the authority of Chapter 1 of the Laws of Washington, 1931, as amended and supplemented, constituting Title 54 of the Revised Code of Washington, and shall at all times use its best efforts to maintain all the powers of such a public utility district.

Section 8.2. Operation and Maintenance of the Consolidated System.

(a) Subject to the other provisions of this Resolution, the District shall at all times operate the properties of the Consolidated System and the business in connection therewith in an efficient manner and at reasonable cost, and shall maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Consolidated System, and all additions and betterments thereto and extensions thereof, and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(b) The District shall at all times comply with the terms and conditions of any permits or licenses for the Consolidated System, or any property or facilities constituting a part thereof, issued by any federal or state governmental agency or body having jurisdiction thereof and with the power to issue orders with respect thereto and enforce the same, and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Consolidated System. The District

shall use its best efforts to obtain renewals of such permits or licenses or obtain new permits or licenses unless such renewals or new permits or licenses are not, in the judgment of the Commission, in the best interests of the District.

Section 8.3. Rates and Charges.

(a) The District shall fix, establish, maintain and collect rates and charges for electric power and energy, water, wastewater, fiber optics networks and other services, facilities and commodities sold, furnished or supplied by or through the Consolidated System which shall be fair and nondiscriminatory and adequate to provide the District with Revenues in each Fiscal Year sufficient:

(i) To pay, to the extent not paid from Available Funds or other moneys of the Consolidated System, (A) the Operation and Maintenance Expenses due and payable during such Fiscal Year, (B) Annual Debt Service on the Bonds and the Senior Consolidated System Bonds due and payable in such Fiscal Year, (C) the amounts, if any, required to be deposited into (I) the Reserve Fund and (II) any debt service reserve fund for the Senior Consolidated System Bonds, during such Fiscal Year, and (D) any and all other amounts the District is obligated to pay or set aside from the Revenues by law or contract in such Fiscal Year;

(ii) Together with Available Funds, to provide a Bond Coverage Ratio of at least 1.25.

(iii) Excluding Available Funds, to provide a Bond Coverage Ratio of at least 1.0.

(b) The failure of the District to comply with paragraph (a)(ii) or (iii) of this Section in any Fiscal Year shall not constitute an Event of Default hereunder if, within 60 days after the District first determines such non-compliance, but in any event not more than 60 days after the District's receipt of its annual audited financial statements, the District engages a Consulting Engineer to deliver a report to the District within 60 days after such engagement and if (i) within 60 days after receipt of the Consulting Engineer's report the District implements the recommendations set forth in such report, or (ii) the report states that any action that would enable the District to comply with such covenant is impracticable at that time, or (iii) the report states that the Consolidated System cannot generate Revenues sufficient to enable the District to comply with such covenant and the District maintains revenue-maximizing rates and charges for electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Consolidated System, or (iv) the District has been prevented from taking such action by law or by order of any court or governmental agency. Notwithstanding the foregoing, failure for two (2) consecutive Fiscal Years to comply with such covenant shall in all events constitute an Event of Default, regardless of whether an event described in clauses (i) through (iv) has occurred.

(c) The District shall fix, establish, maintain and collect rates and charges for electric power and energy and other services, facilities and commodities sold, furnished or supplied by or through the Rock Island System and the Rocky Reach System, respectively, which shall be adequate, together with other available funds of the Rock Island System and Rocky Reach System, respectively, to make all required payments due from those systems to the Consolidated System, including any payments due on account of loans or advances of funds from the Consolidated System to the Rock Island System and the Rocky Reach System, respectively.

Section 8.4. Sinking Funds for Balloon Bonds. The District shall establish and maintain a Balloon Sinking Fund, to be held by the District, with respect to each Balloon Bond at least three (3) years prior to the maturity date, mandatory redemption date, or date of mandatory tender for purchase of such Bonds in order to secure the payment of the maturing Principal, including Accreted Value, Purchase Price or Redemption Price of such Bonds. The District shall fund each such Balloon Sinking Fund in four equal annual installments of one-fourth of such maturing Principal, Purchase Price or Redemption Price commencing not less than three (3) years prior to such payment date, either (i) by deposits from Revenues or other available funds, or (ii) by obtaining one or more Credit Facilities that provide for the payment of such maturing Principal, Purchase Price or Redemption Price. Amounts in each such Balloon Sinking Fund are hereby pledged and shall be applied to the payment of such Bonds on their maturity date, mandatory redemption date, or date of mandatory tender for purchase, and shall be subject to the lien and charge of this Resolution for the benefit of such Bonds. Any amounts in any such Sinking Fund not required on the maturity date, mandatory redemption date, or date of mandatory tender for purchase may be used for any other lawful purpose of the District.

Section 8.5. Protection of Security. The District is duly authorized under all applicable laws to issue the Bonds and to adopt this Resolution and to pledge the Revenues purported to be pledged by this Resolution in the manner and to the extent provided in this Resolution. The Revenues so pledged are and shall be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by this Resolution, except as otherwise expressly provided herein. The Bonds and this Resolution are and will be valid and binding obligations of the District enforceable in accordance with their terms and the terms of this Resolution; provided, that the rights of the Owners under this Resolution and under the Bonds may be subject to the exercise of judicial discretion, to bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors, and to limitations on remedies against public utility districts under the laws of the State. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and the rights of the Owners under this Resolution against all claims and demands of all persons whatsoever.

Section 8.6. Take-or-Pay Contracts. So long as any Take-or-Pay Contract is in effect, the District shall enforce the provisions of such Take-or-Pay Contract and shall

not waive any default or fail to declare any default under or in connection with such Take-or-Pay Contract that would reduce the payments to the District required thereunder to an extent that would materially adversely affect the security of the Owners; provided, that the District may, in the event the purchaser under such Take-or-Pay Contract fails or refuses to take power and energy pursuant to such Take-or-Pay Contract, sell such power and energy to others at not less than the minimum rates specified in Section 8.3.

Section 8.7. Power Purchase Agreements. The District shall not hereafter enter into any Power Purchase Agreement payable from Revenues unless the District shall first deliver to the Trustee a Certificate of the District demonstrating compliance with the requirements set forth in Section 4.4 for the first three (3) full Fiscal Years following the Fiscal Year in which such Power Purchase Agreement will become effective.

Section 8.8. No Free Service. The District shall not, except as may be required under the provisions of any federal or State statute, regulation or license, furnish or supply electric energy or any other commodity, service or facility furnished by or in connection with the operation of the Consolidated System, free of charge to any other system of the District or any Person; provided, that, notwithstanding the foregoing, the District may provide commodities, services or facilities at a discount or free of charge to Persons to the extent necessary or desirable to further the public policies and purposes of the District, but only if and to the extent that it does not have a material adverse effect on the ability of the District to comply with the provisions of this Resolution. The District shall promptly enforce the payment of any and all accounts owing to the District by discontinuing service, or by filing suit therefor within 180 days after any such accounts were due, or by both discontinuance of service and by filing suit.

Section 8.9. Not to Dispose of System Properties. The District shall not sell, lease or otherwise dispose of, or cause the sale, lease or other disposition of, or permit to be sold, leased or otherwise disposed of, any real or personal properties constituting part of the Consolidated System unless:

(a) Such sale, lease or disposal is of property that in the judgment of the District has become unserviceable, inadequate, obsolete, unfit or is no longer needed for the efficient and economical operation of the properties of the Consolidated System; or

(b) Such sale, lease or disposal is of property having an aggregate fair market value in any Fiscal Year of less than one percent (1%) of the value of all real or personal properties constituting part of the Consolidated System; or

(c) As determined by a certificate of a Consulting Engineer, such sale, lease or disposal will not materially impair the ability of the District to comply with the provisions of Section 8.3 for a period of five (5) Fiscal Years after such sale, lease or disposal, and the District transfers the proceeds of such sale, lease or disposal to the Construction Fund to be established for the purpose of repairing or restoring the Consolidated System or to each Bond Retirement Account for all Series of Bonds then

Outstanding in the same ratio as the initial Principal amount of each Series of Bonds then Outstanding bears to the aggregate initial Principal amount of all Series of Bonds then Outstanding.

Section 8.10. Insurance.

(a) The District shall keep, or cause to be kept, the works, plants and facilities comprising the properties of the Consolidated System insured to the extent available at reasonable cost with responsible insurers with policies payable to the District for the benefit of the Consolidated System against risks of direct physical loss, damage or destruction of the Consolidated System, at least to the extent that similar insurance is usually carried by municipally-owned utilities operating like properties against accidents, casualties or negligence, including liability insurance, and against loss, including loss of revenue, caused by reason of suspension or interruption of generation or transmission of power and energy caused by such loss, damage or destruction.

(b) Except as otherwise provided in the Original Resolutions, in the event of any loss or damage to the properties of the Consolidated System covered by insurance, the District will transfer the proceeds received by the District of any casualty insurance policy or policies covering such damage or loss to the Construction Fund to be established for the purpose of repairing or restoring the Consolidated System or to each Bond Retirement Account for all Series of Bonds then Outstanding in the same ratio as the initial Principal amount of each Series of Bonds then Outstanding bears to the aggregate initial Principal amount of all Series of Bonds then Outstanding.

(c) Except as otherwise provided in the Original Resolutions, in the case of loss, including loss of revenue, caused by suspension or interruption of generation or transmission of power and energy, the proceeds received by the District of any insurance policy or policies covering such loss shall be paid into the Revenue Fund.

(d) Within 60 days after the close of each Fiscal Year, the District shall file, or cause to be filed, with the Trustee a Certificate of the District describing in reasonable detail the insurance then in effect pursuant to the requirements of this Section and stating whether such insurance then in effect reasonably complies with the provisions hereof.

Section 8.11. Eminent Domain. Except as otherwise provided in the Original Resolutions, in the event of transfer of the properties of the Consolidated System by operation of law or under threat of condemnation, the District will transfer the proceeds received by the District of any such condemnation award or any such sale under threat of condemnation to the Construction Fund to be established for the purpose of repairing or restoring the Consolidated System, or to each Bond Retirement Account for all Series of Bonds then Outstanding in the same ratio as the initial Principal amount of each Series of Bonds then Outstanding bears to the aggregate initial Principal amount of all Series of Bonds then Outstanding.

Section 8.12. Financial Reports. The District shall prepare and make available for inspection at the principal administrative office of the District and shall provide to the Trustee and any Credit Facility Provider the most recent audited annual financial statements of the District, including any supplemental schedules showing the component units constituting a part of the Consolidated System, and the current unaudited financial reports of the District reflecting quarterly information, accompanied by a Certificate of the Treasurer to the effect that such current quarterly reports were prepared on a basis consistent with that of the most recent audited annual financial statements, except as otherwise set forth therein. The District shall make available its audited annual financial statements within 150 days after the end of each Fiscal Year.

Section 8.13. Payment of Bonds. The District shall duly and punctually pay or cause to be paid, but only from the Revenues, after payment of Operation and Maintenance Expenses, and from the proceeds of the sale or other disposition (whether voluntary or involuntary) of property of the Consolidated System, the Bonds on the dates and at the places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and shall faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Bonds and in this Resolution and the Supplemental Resolutions.

Section 8.14. Payment of Taxes and Claims. The District shall from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties constituting the Consolidated System or the Revenues when the same shall become due, and all lawful claims for labor and material and supplies which, if not paid, might become a lien or charge upon such properties, or any part thereof, or upon the Revenues, or which might in any way impair the security of the obligations issued by the District payable from the Revenues, including the taxes, assessments, charges or claims which the District shall in good faith contest by proper legal proceedings.

Section 8.15. Tax Covenants.

(a) The District covenants that it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on any Tax-Exempt Bonds under Section 103 of the Code. The District shall not directly or indirectly use or permit the use of any proceeds of the Tax-Exempt Bonds in such a manner as would adversely affect the exclusion of interest on any Tax-Exempt Bonds from gross income under Section 103 of the Code. The District shall not directly or indirectly use or permit the use of any proceeds of any Tax-Exempt Bonds, or of any facilities financed thereby, or other funds of the District, or take or omit to take any action, that would cause any Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the District shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury promulgated thereunder to the extent such requirements are, at the time, in effect and applicable to the Tax-Exempt Bonds. In the

event that at any time the District is of the opinion that for purposes of this Section it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under this Resolution, the District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be directed in such instructions.

(b) Terms used but not otherwise defined in this Section shall have the meanings set forth in the Code.

Section 8.16. Original Resolutions. With respect to each of the Original Resolutions, until such time as the obligations under an Original Resolution have been discharged in accordance with the terms thereof, the District shall comply in all respects with each of the provisions, covenants and agreements thereof or contained therein.

Section 8.17. Further Assurances. The District shall at any and all times, insofar as it may be authorized to do so by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, assignments, instruments and assurances as may be necessary or desirable for the better assuring, granting, pledging, assigning and confirming any and all of the rights, revenues, funds and other property hereby granted, pledged or assigned to pay or secure the payment of the Bonds, in the manner and to the extent provided herein.

ARTICLE IX DEFAULTS AND REMEDIES

Section 9.1. Events of Default. Each of the following is an “Event of Default” hereunder:

(a) The District shall default in the payment of any Principal, Purchase Price or Redemption Price of or interest on any Bond or Senior Consolidated System Bond when the same becomes due and payable; or

(b) Subject to the provisions of Section 9.7, default in the performance, or breach, of any covenant, warranty or representation of the District contained in this Resolution (other than a default under subsection (a) of this Section); or

(c) (i) The filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceedings) by the District as debtor, under federal or state bankruptcy law; (ii) the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceedings) against the District as debtor, under federal or state bankruptcy law, which petition is not dismissed within 60 days after filing; (iii) the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the District or of any substantial portion of its property; or (iv) the ordering of the winding up or liquidation of the affairs of the District.

Section 9.2. Remedies Upon Default.

(a) If an Event of Default under Section 9.1 occurs and is continuing, the Trustee may, and upon the written request to the Trustee by the Owners of a majority in aggregate Principal amount of the Outstanding Bonds the Trustee shall, subject to the requirements of Section 10.2(e), by written notice to the District, declare the Principal of the Bonds and all interest accrued thereon to the date of acceleration to be immediately due and payable.

(b) At any time after such a declaration of acceleration has been made and before the entry of a judgment or decree for payment of the money due, the Trustee may, or the Owners of a majority in aggregate Principal amount of the Outstanding Bonds, may by written notice to the District and the Trustee, and subject to the requirements of Section 10.2(e), direct the Trustee to, rescind and annul such declaration and its consequences if:

(i) there has been paid to or deposited with the Trustee by or for the account of the District, or provision satisfactory to the Trustee has been made for the payment of a sum sufficient to pay: (A) all overdue installments of interest on the Bonds; (B) the Principal, Purchase Price, and Redemption Price of any Bonds that have become due other than by such declaration of acceleration and interest thereon; (C) to the extent lawful, interest upon overdue interest and redemption premium, if any; and (D) all sums paid or advanced by the Trustee hereunder, together with the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel prior to the date of notice of rescission; and

(ii) all Events of Default have been cured or waived, other than the nonpayment of Principal, Purchase Price or Redemption Price of and interest on the Bonds that occasioned such acceleration.

(c) No such rescission and annulment shall affect any subsequent default or impair any consequent right.

Section 9.3. Additional Remedies.

(a) The Trustee, upon the occurrence of an Event of Default may, and upon the written request of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds, and subject to the requirements of Section 10.2(e), shall proceed to protect and enforce its rights and the rights of the Owners of the Bonds under this Resolution by a suit or suits in equity or at law, either for the specific performance of any covenant or agreement contained in this Resolution or in aid of the execution of any power herein or therein granted, or for the enforcement of any other appropriate legal or equitable remedy, and the Trustee in reliance upon the advice of counsel may deem most effective to protect and enforce any of the rights or interests of the Owners of the Bonds under the Bonds or this Resolution.

(b) Without limiting the generality of the foregoing, the Trustee shall at all times have the power to institute and maintain such proceedings as it may deem expedient: (i) to prevent any impairment of the money and other property then held under this Resolution by any acts that may be unlawful or in violation of this Resolution, and (ii) to protect its interests and the interests of the Owners in the money and other property then held under this Resolution and in the issues, profits, revenues and other income arising therefrom, including the power to maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of, or compliance with, such enactment, rule or order would impair the money and other property then held under this Resolution or be prejudicial to the interests of the Owners or the Trustee.

Section 9.4. Marshaling of Assets. Upon the occurrence of an Event of Default, all money in all Funds shall be available to be utilized by the Trustee in accordance with this Article. The rights of the Trustee under Section 10.5 shall be applicable. During the continuance of any such Event of Default, all provisions of this Resolution relating to the utilization of the Funds shall be superseded by this Article. Subsequent to the curing or waiver of any such Event of Default, the provisions of this Resolution relating to utilization of the Funds shall be reinstated.

Section 9.5. Trustee May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding under the federal bankruptcy code relating to the District, any other obligor upon the Bonds or any property of the District, the Trustee (whether or not the Principal of the Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the District for the payment of overdue Principal, Purchase Price, Redemption Price and interest) shall be entitled and empowered, by intervention in such proceeding or other means: (i) to file and prove a claim for the whole amount of the Principal, Purchase Price, Redemption Price and interest owing and unpaid in respect of the Bonds then Outstanding or for breach of this Resolution and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel) and of the Owners allowed in such proceeding; and (ii) to collect and receive any money or other property payable or deliverable on any such claims and to distribute the same; and each Owner, by holding the Bonds, thereby authorizes any receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Owners, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel, and any other amounts due the Trustee under Section 10.5.

(b) No provision of this Resolution empowers the Trustee to authorize or consent to or accept or adopt on behalf of any Owners any plan of reorganization, arrangement, adjustment or composition affecting any of the Bonds or the rights of any Owner, or to authorize the Trustee to vote in respect of the claim of any Owner in any proceeding described in subsection (a) of this Section.

Section 9.6. Possession of Bonds Not Required. All rights under this Resolution and the Bonds may be enforced by the Trustee without possession of any Bonds or the production of them at trial or other proceedings. Any proceedings instituted by the Trustee may be brought in its name for itself or as representative of the Owners without the necessity of joining Owners as parties, and any recovery resulting from such proceedings shall, subject to Section 9.8, be for the ratable benefit of the Owners.

Section 9.7. Notice and Opportunity to Cure Certain Defaults. No default under Section 9.1(b) shall constitute an Event of Default until written notice of such default shall have been given to the District by the Trustee or by the Owners of at least 25% in aggregate Principal amount of the Bonds Outstanding, and the District shall have had 60 days after receipt of such notice to correct such default or cause such default to be corrected, and shall have failed to do so. In the event, however, that the default is such that it cannot be corrected within such 60-day period, it shall not constitute an Event of Default if corrective action is instituted by the Borrower within such period and diligently pursued (as determined by the Trustee) until the default is corrected.

Section 9.8. Priority of Payment Following Event of Default.

(a) If at any time after the occurrence of an Event of Default the money held by the Trustee under this Resolution shall not be sufficient to pay the Bonds as the same become due and payable, such money, together with any money then available or thereafter becoming available for such purpose, whether through the exercise of remedies in this Article or otherwise, shall, subject to subsections (b) and (c) of this Section, be applied by the Trustee as follows:

(i) First, to the payment of all amounts due the Trustee under Section 10.5;

(ii) Second, to the payment of Operation and Maintenance Expenses;

(iii) Third, so long as any Senior Consolidated System Bonds are Outstanding, to the payment thereof in accordance with the Senior Consolidated System Resolution;

(iv) Fourth, to the payment of all interest on the Bonds and Payment Agreement Payments then due and payable in the order in which the same became due and payable, and, if the amount available shall not be sufficient to make any payment in full, then to the payment, ratably, according to the amounts due with respect to such payments, without discrimination or preference;

(v) Fifth, to the payment of the unpaid Principal amount of any of the Bonds that shall have become due and payable, in the order of due dates (other than Bonds called for redemption or contracted to be purchased for the payment of which money is held pursuant to the provisions of this Resolution), with interest upon the Principal amount of the Bonds from the respective dates upon which they shall have become due and payable, and, if the amount available shall not be sufficient to pay in full the Principal of such Bonds due and payable on any particular due date, together with such interest, then to the payment first of such interest, ratably, according to the amount of Principal due on such date, without any discrimination or preference;

(vi) Sixth, to the payment of the Redemption Price of Bonds called for optional redemption, if any;

(vii) Seventh, to the payment under all reimbursement agreements with the providers of Reserve Account Credit Facilities of all amounts due and payable thereunder (and if there is not sufficient money to make all such payments, then on a pro rata basis to each provider);

(viii) Eighth: (A) for the payment of principal and premium, if any, and interest on Subordinate Obligations; (B) for deposit into a reserve fund securing any Subordinate Obligations; (C) for Payment Agreement Payments pursuant to any Payment Agreements entered into by the District with respect to any Subordinate Obligations; and (D) for payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal of or interest on any Subordinate Obligations; in each case in any order of priority which may be hereafter established by the District;

(ix) Ninth, for any payment under a Payment Agreement that does not constitute a Payment Agreement Payment;

(x) Tenth, for any payment under a Power Purchase Agreement that does not constitute an Operation and Maintenance Expense; and

(xi) Eleventh, to the payment of all other charges or obligations against the Revenues of whatever nature now or hereafter imposed thereon by law or contract, in any order of priority which may be hereafter established by the District.

(b) If the Principal of all Bonds shall have become due and payable, subject to clause (i) of subsection (a) of this Section regarding payment to the Trustee, all such money shall be applied to the payment of the Principal and interest then due and unpaid upon the Bonds, without preference or priority of Principal over interest or of interest over Principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for Principal and interest, without any discrimination or preference.

(c) Whenever money is to be applied pursuant to the provisions of this Section, the Trustee may, in its discretion, establish and maintain a reserve for future fees and expenses, and may apply money to be distributed at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such money available for application and the likelihood of additional money becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix a date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of Principal to be paid on such dates, and for which money is available, shall cease to accrue. The Trustee shall also select a record date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any money and of the fixing of any such record date and payment date, and shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 9.9. Owners May Direct Proceedings. The Owners of a majority in aggregate Principal amount of the Outstanding Bonds shall, subject to the requirements of Section 10.2(e), have the right, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee hereunder, provided that such direction shall not be in conflict with any rule of law or this Resolution and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unduly prejudicial to the rights of Owners not parties to such direction or would subject the Trustee to personal liability or expense. Notwithstanding the foregoing, the Trustee shall have the right to select and retain counsel of its choosing to represent it in any such proceedings. The Trustee may take any other action which is not inconsistent with any direction under this Section.

Section 9.10. Limitations on Rights of Owners.

(a) No Owner shall have any right to pursue any other remedy under this Resolution or the Bonds unless: (i) an Event of Default shall have occurred and is continuing; (ii) the Owners of a majority in aggregate Principal amount of the Outstanding Bonds have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names; (iii) the Trustee has been offered indemnity satisfactory to it against costs, expenses and liabilities reasonably anticipated to be incurred; (iv) the Trustee has declined to comply with such request, or has failed to do so, within 60 days after its receipt of such written request and offer of indemnity; and (v) no direction inconsistent with such request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate Principal amount of the Outstanding Bonds.

(b) The provisions of subsection (a) of this Section are conditions precedent to the exercise by any Owner of any remedy hereunder. The exercise of such rights is further subject to the provisions of Sections 9.9, 9.11 and 9.14. No one or more

Owners shall have any right in any manner whatever to enforce any right under this Resolution, except in the manner herein provided. All proceedings at law or in equity with respect to an Event of Default shall be instituted and maintained in the manner herein provided for the equal and ratable benefit of the Owners of all Bonds Outstanding.

Section 9.11. Unconditional Right of Owners To Receive Payment. Notwithstanding any other provision of this Resolution, the Owner of each Bond shall have the absolute and unconditional right to receive payment of Principal, Purchase Price and Redemption Price of and interest on such Bond on and after the due date thereof, and to institute suit for the enforcement of any such payment.

Section 9.12. Restoration of Rights and Remedies. If the Trustee or any Owner has instituted any proceeding to enforce any right or remedy under this Resolution, and any such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Owner, then the District, the Trustee and the Owners shall, subject to any determination in such proceeding, be restored to their former positions hereunder, and all rights and remedies of the Trustee and the Owners shall continue as though no such proceeding had been instituted.

Section 9.13. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other right or remedy, but each such right or remedy shall, to the extent permitted by law, be cumulative of and in addition to every other right or remedy given hereunder or now or hereafter existing at law, in equity or otherwise. The assertion or employment of any right or remedy hereunder shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 9.14. Delay or Omission Not Waiver. No delay or omission by the Trustee or any Owner to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of such Event of Default. Every right and remedy given by this Article or by law to the Trustee or the Owners may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Owners, as the case may be.

Section 9.15. Waiver of Defaults.

(a) The Owners of a majority in aggregate Principal amount of the Outstanding Bonds may, by written notice to the Trustee and subject to the requirements of Section 10.2(e), waive any existing default or Event of Default and its consequences, except an Event of Default under Section 9.1(a). Upon any such waiver, the default or Event of Default shall be deemed cured and shall cease to exist for all purposes. No waiver of any default or Event of Default shall extend to or effect any subsequent default or Event of Default or shall impair any right or remedy consequent thereto.

(b) Notwithstanding any provision of this Resolution, in no event shall any Person, other than all of the affected Owners, have the ability to waive any Event of

Default under this Resolution if such event results or may result, in the opinion of Bond Counsel, in interest on any of the Tax-Exempt Bonds becoming includable in gross income for federal income tax purposes.

Section 9.16. Notice of Events of Default. If an Event of Default occurs of which the Trustee has or is deemed to have notice under Section 10.2(h), the Trustee shall give prompt notice thereof to the District. Within 30 days thereafter (unless such Event of Default has been cured or waived), the Trustee shall give notice of such Event of Default to each Owner of Bonds then Outstanding; provided, that except in the instance of an Event of Default under Section 9.1(a), the Trustee may withhold such notice to Owners if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of Owners; and provided further, that notice to Owners of any Event of Default under Section 9.1(b) shall be subject to the provisions of Section 9.7 and shall not be given until the grace period has expired.

ARTICLE X THE TRUSTEE

Section 10.1. Appointment; Duties and Responsibilities of the Trustee.

(a) The Commission shall designate and appoint the initial Trustee with respect to the Bonds.

(b) Prior to the occurrence of an Event of Default of which it has or is deemed to have notice hereunder, and after the curing or waiver of any Event of Default that may have occurred: (i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Resolution, and no implied covenants or obligations shall be read into this Resolution against the Trustee; and (ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee that conform to the requirements of this Resolution; but the Trustee is under a duty to examine such certificates and opinions to determine whether they conform to the requirements of this Resolution.

(c) In case an Event of Default of which the Trustee has or is deemed to have notice hereunder has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Resolution, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such person's own affairs.

(d) No provision of this Resolution shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that: (i) this subsection shall not be construed to limit the effect of subsection (b) of this Section; (ii) the Trustee is not liable for any error of judgment made in good faith by an authorized officer of the Trustee, unless it is proven that the Trustee was negligent in ascertaining the pertinent facts; (iii) the Trustee is not

liable with respect to any action it takes or omits to be taken by it in good faith in accordance with the direction of the Owners under any provision of this Resolution relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Resolution; and (iv) no provision of this Resolution shall require the Trustee to expend or risk its own funds or otherwise incur any liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) The Trustee shall maintain proper books of record and accounts in which complete and correct entries shall be made of all investments and disbursements of proceeds in the Funds through the date ending six (6) years following the date on which all the Bonds have been retired, and such records shall be available for inspection by the District upon reasonable notice.

(f) Whether or not expressly so provided, every provision of this Resolution relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of this Section.

Section 10.2. Certain Rights of the Trustee. Except as otherwise provided in Section 10.1:

(a) The Trustee may rely and is protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any statement or certification of the District under this Resolution shall be sufficiently evidenced by a Certificate of the District (unless other evidence thereof is specifically prescribed), any request, direction, order or demand of the District under this Resolution shall be sufficiently evidenced by an Order of the District (unless other evidence thereof is specifically prescribed) and any resolution of the Commission may be sufficiently evidenced by a copy thereof certified by the Secretary of the Commission;

(c) Whenever in the administration of this Resolution the Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence thereof is specifically prescribed) may, in the absence of bad faith on its part, rely upon a Certificate of the District;

(d) The Trustee may consult with counsel and the written advice of such counsel or an opinion of counsel or of Bond Counsel shall be full and complete authorization and protection for any action taken, suffered or omitted by it in good faith and in accordance with such advice or opinion;

(e) The Trustee is under no obligation to exercise any of the rights or powers vested in it by this Resolution at the request or direction of any of the Owners unless the Owners have offered to the Trustee security or indemnity satisfactory to the Trustee as to its terms, coverage, duration, amount and otherwise with respect to the costs, expenses and liabilities which may be incurred by it in compliance with such request or direction, and the provision of such indemnity shall be mandatory for any remedy taken upon direction of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds;

(f) The Trustee is not required to make any inquiry or investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee determines to make such further inquiry or investigation, it is entitled to examine the books, records and premises of the District, in person or by agent or attorney;

(g) The Trustee may execute any of its trusts or powers or perform any duties under this Resolution either directly or by or through agents or attorneys, and may in all cases pay, subject to reimbursement as provided in Section 10.5, such reasonable compensation as it deems proper to all such agents and attorneys reasonably employed or retained by it, and the Trustee shall not be responsible for any misconduct or negligence of any agent or attorney appointed with due care by it;

(h) The Trustee is not required to take notice or deemed to have notice of any default or Event of Default hereunder, except an Event of Default under Section 9.1(a), unless an officer of the Trustee has actual knowledge thereof or has received notice in writing of such default or Event of Default from the District or the Owners of at least 25% in aggregate Principal amount of the Outstanding Bonds, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists;

(i) The Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under this Resolution;

(j) In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of Owners, each representing less than a majority in aggregate Principal amount of the Outstanding Bonds, pursuant to the provisions of this Resolution, the Trustee, in its sole discretion, may determine what action, if any, shall be taken;

(k) The Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under this Resolution shall extend to the Trustee's officers, directors, agents, attorneys and employees. Such immunities and protections and right to indemnification, together with the Trustee's right

to compensation, shall survive the Trustee's resignation or removal, the defeasance or discharge of this Resolution and final payment of the Bonds;

(l) The permissive right of the Trustee to take the actions permitted by this Resolution shall not be construed as an obligation or duty to do so; and

(m) Except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

Section 10.3. Trustee Not Responsible for Recitals. The recitals contained in this Resolution and in the Bonds (other than the certificate of authentication on the Bonds) are statements of the District, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the value, condition or sufficiency of any assets pledged or assigned as security for the Bonds, the right, title or interest of the District therein, the security provided thereby or by this Resolution or the tax status of interest on the Bonds. The Trustee is not accountable for the use or application by the District of any of the Bonds or the proceeds of the Bonds, or for the use or application of any money paid over by the Trustee in accordance with any provision of this Resolution.

Section 10.4. Trustee May Own Bonds. The Trustee, in its commercial banking or in any other capacity, may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if it were not Trustee. The Trustee, in its commercial banking or in any other capacity, may also engage in or be interested in any financial or other transaction with the District and may act as depository, trustee or agent for any committee of Owners secured hereby or other obligations of the District as freely as if it were not Trustee. The provisions of this Section shall extend to affiliates of the Trustee.

Section 10.5. Compensation and Expenses of the Trustee.

(a) The District hereby covenants and agrees:

(i) to pay to the Trustee compensation for all services rendered by it hereunder and under the other agreements relating to the Bonds to which the Trustee is a party in accordance with terms agreed to from time to time, and, subsequent to default, in accordance with the Trustee's then-current fee schedule for default administration (the entirety of which compensation shall not be limited by any provision of law regarding compensation of a trustee of an express trust);

(ii) to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Resolution, any other agreement relating to the Bonds to which

it is a party or in complying with any request by the District or any securities credit rating agency with respect to the Bonds, including the reasonable compensation, expenses and disbursements of its agents and counsel, except any such expense, disbursement or advance attributable to the Trustee's negligence or bad faith; and

(iii) to indemnify, defend and hold the Trustee harmless from and against any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the office of Trustee under this Resolution, including the costs of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder or thereunder.

(b) In the event the Trustee incurs expenses or renders services in any proceedings under federal or state bankruptcy law relating to the District, the expenses so incurred and compensation for services so rendered are intended to constitute expenses of administration under federal or state bankruptcy law. As security for the performance of the obligations of the District under this Section, the Trustee shall have a lien prior to the lien securing the Bonds and Payment Agreement Payments, which it may exercise through a right of setoff, upon all property or funds held or collected by the Trustee pursuant to this Resolution. The obligations of the District to make the payments described in this Section shall survive discharge of this Resolution, the resignation or removal of the Trustee and payment in full of the Bonds.

Section 10.6. Qualifications of the Trustee. There shall at all times be a trustee hereunder which shall be a corporation or banking association organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, which has a combined capital and surplus of at least \$250,000,000, or is an affiliate of, or has a contractual relationship with, a corporation or banking association meeting such capital and surplus requirement which guarantees the obligations and liabilities of the proposed trustee, and which is subject to supervision or examination by federal or state banking authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or the requirements of any supervising or examining authority above referred to, then for purposes of this Section, the combined capital and surplus of such corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign promptly in the manner and with the effect specified in this Article.

Section 10.7. Resignation or Removal of the Trustee; Appointment of Successor Trustee.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 10.8.

(b) The Trustee may resign at any time by giving written notice to the District. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing. If an instrument of acceptance has not been delivered to the resigning Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any Owner of a Bond then Outstanding may petition a court of competent jurisdiction for the appointment of a successor Trustee.

(c) Prior to the occurrence and continuance of an Event of Default hereunder, or after the curing or waiver of any such Event of Default, the District or the Owners of a majority in aggregate Principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In the event there shall have occurred and be continuing an Event of Default hereunder, the Owners of a majority in aggregate Principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In each instance such removal and appointment shall be accomplished by an instrument or concurrent instruments in writing signed by the District or such Owners, as the case may be, and delivered to the Trustee, the District and Owners of the Outstanding Bonds.

(d) If at any time: (i) the Trustee shall cease to be eligible and qualified under Section 10.6 and shall fail or refuse to resign after written request to do so by the District or the Owner of any Bond, or (ii) the Trustee shall become incapable of acting or shall be adjudged insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take charge or control of the Trustee, its property or affairs for the purpose of rehabilitation, conservation or liquidation, then in either such case (A) the District may remove the Trustee and appoint a successor Trustee in accordance with the provisions of subsection (c) of this Section; or (B) any Owner of a Bond then Outstanding may, on behalf of the Owners of all Outstanding Bonds, petition a court of competent jurisdiction for removal of the Trustee and appointment of a successor Trustee.

(e) The District shall give written notice of each resignation or removal of the Trustee and each appointment of a successor Trustee to each Owner of Bonds then Outstanding as listed in the Bond Register. Each such notice shall include the name and address of the applicable corporate trust office of the successor Trustee.

Section 10.8. Acceptance of Appointment by Successor Trustee.

(a) Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the District and the predecessor Trustee an instrument accepting its appointment. The resignation or removal of the retiring Trustee shall thereupon become effective, and the successor Trustee shall, without further act, deed or conveyance, become vested with all the estates, properties, rights, powers and duties of the predecessor Trustee. Upon the request of the District or the successor Trustee, the predecessor Trustee shall execute and deliver an instrument transferring to the successor Trustee all the estates, properties, rights, powers and duties of the predecessor Trustee

under this Resolution, shall duly assign, transfer, deliver and pay over to the successor Trustee all money and other property then held under this Resolution, subject, however, to the lien provided for in Section 10.5, and shall deliver to the successor Trustee, all records maintained by the predecessor Trustee with respect to the Funds and the Bonds and such records shall be proper books of record and accounts containing complete and correct entries. The successor Trustee shall promptly give written notice of its appointment to the Owners of all Bonds Outstanding in the manner prescribed herein, unless such notice has previously been given.

(b) No successor Trustee shall accept appointment as provided in this Section unless, as of the date of such acceptance, it is eligible and qualified under the provisions of Section 10.6.

Section 10.9. Merger, Succession or Consolidation of Trustee. Any corporation or association: (a) into which the Trustee is merged or with which it is consolidated; (b) resulting from any merger or consolidation to which the Trustee is a party; or (c) succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor Trustee without the execution or filing of any document or the taking of any further action. Any such successor must nevertheless be eligible and qualified under the provisions of Section 10.6.

Section 10.10. Notices to Owners; Waiver.

(a) Where this Resolution provides for notice to Owners of any event, such notice shall be sufficiently given (unless otherwise expressly provided herein) if in writing and mailed, first-class postage prepaid, to each Owner affected by each event, at such Owner's address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Owners is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Owner shall affect the sufficiency of such notice with respect to other Owners. Where this Resolution provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Owners shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

(b) The Trustee, on behalf of and at the expense of the District, shall maintain the Beneficial Owner Register in which the Trustee shall record the name and address of any person that is identified to the Trustee as a Beneficial Owner and for which the Trustee has: (i) information sufficient to permit delivery of first class mail and (ii) either: (x) a certificate executed, as depository or securities intermediary, by any trust company, bank, banker or member of a national securities exchange (wherever situated), if such certificate is in form satisfactory to the Trustee, or (y) a certificate or affidavit of the Person executing such instrument or writing as a Beneficial Owner if such certificate

or affidavit is in form satisfactory to the Trustee or (z) such other instrument or writing as the Trustee deems sufficient for the purposes of this Section. Neither the Trustee nor the District shall be responsible for the accuracy of the Beneficial Owner Register, and no Person listed in the Beneficial Owner Register shall be entitled to any rights under this Resolution other than the right to receive notices in the manner provided in subsection (c) of this Section.

(c) With respect to Book-Entry Bonds, where this Resolution provides for notice to the Owners of the existence of, or during the continuance of, any Event of Default, or at any time upon the written request of the District, the Trustee, at the expense of the District, shall: (i) establish a record date for determination of the Persons entitled to receive such notice; (ii) request a securities position listing from the Securities Depository showing the participants holding positions in the Book-Entry Bonds affected by such notice as of the record date for such notice; (iii) mail, first class postage prepaid, copies of the notice as provided above to each participant identified in the securities position listing as holding a position in the Book-Entry Bonds as of the record date for the notice, to each Person listed in the Beneficial Owner Register, to each nationally recognized municipal securities information repository and state information depository (within the meaning of Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended), and to any Person identified to the Trustee as a nonobjecting Beneficial Owner pursuant to the immediately following clause; (iv) request that the participant retransmit the notice to all Persons for which it served as nominee on the record date, including nonobjecting Beneficial Owners, or retransmit the notice to objecting Beneficial Owners and provide a listing of nonobjecting Beneficial Owners for whom the participant served as nominee on the record date to the Trustee, (v) provide on behalf of the District and not as its agent, an undertaking of the District to pay to any participant or other nominee (other than the Securities Depository) the reasonable costs of transmitting the notice to Persons for whom the participant acts as nominee; and (vi) provide as many copies of the notice as may be requested by any nominee owner of the Bonds. Any default in performance of the duties required by this subsection shall not affect the sufficiency of notice to the Owners given in accordance with subsection (a) of this Section, nor the validity of any action taken under this Resolution in reliance on such notice to Owners.

(d) Where this Resolution provides for notice to the Owners of any event, the form of the notice shall prominently include a title block, separate from the body of the notice, which shall include the following information: (i) the complete title of the Bonds; (ii) the complete name of the District; (iii) the entire nine-digit CUSIP number of each affected Bond; (iv) the record date for the notice; and (v) a summary that is no more than the maximum number of characters permitted by the Securities Depository.

(e) Any notice required or permitted by this Resolution to be given to the Securities Depository shall be given to it in the manner provided by this Section for giving notice to Owners, and also shall be given in the format requested by the Securities

Depository to such address as may be specified by the Securities Depository in writing to the Trustee.

ARTICLE XI DISCHARGE AND DEFEASANCE

Section 11.1. Discharge. If (a) the Principal of any Bonds and the interest due or to become due thereon together with any premium required by redemption of any of such Bonds prior to maturity shall be paid, or is caused to be paid, or is provided for under Section 11.2, at the times and in the manner to which reference is made in such Bonds, according to the true intent and meaning thereof, or such Bonds shall have been paid and discharged in accordance with this Article, and (b) all Payment Agreement Payments and other payments due in accordance with the provisions of the Payment Agreements and this Resolution have been made and (c) all of the covenants, agreements, obligations, terms and conditions of the District under this Resolution shall have been kept, performed and observed and there shall have been paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then the right, title and interest of the Trustee in all money and other property then held under this Resolution shall thereupon cease and the Trustee, on request of and at the expense of the District, shall release this Resolution and shall execute such documents to evidence such release as may be reasonably required by the District and shall turn over to the District, or to such other Person as may be entitled to receive the same, all balances remaining in any Funds except for amounts required to pay such Bonds or held pursuant to Section 3.11.

Section 11.2. Defeasance. If the District deposits with the Trustee money or noncallable Government Securities which, together with the earnings thereon, are sufficient to pay the Principal, Purchase Price or Redemption Price of any particular Bond or Bonds, or portions thereof, becoming due, together with all interest accruing thereon to the due date or redemption date, and pays or makes provision for payment of all fees, costs and expenses of the Trustee due or to become due with respect to such Bonds, all liability of the District with respect to such Bond or Bonds (or portions thereof) shall cease, such Bond or Bonds (or portions thereof) shall be deemed not to be Outstanding hereunder and the Owner or Owners of such Bond or Bonds (or portions thereof) shall be restricted exclusively to the money or Government Securities so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to such Bond or Bonds (or portions thereof), and the Trustee shall hold such money, Government Securities and earnings in trust exclusively for such Owner or Owners and such money, Government Securities and earnings shall not secure any other Bonds under this Resolution. In determining the sufficiency of the money and Government Securities deposited pursuant to this Section, the Trustee shall receive, at the expense of the District, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to the District and the Trustee; and (b) an opinion of Bond Counsel to the effect that (1) all conditions set forth in this Article have been satisfied and (2) that defeasance of the

Bonds will not cause interest on any Tax-Exempt Bonds to be includable in gross income for federal income tax purposes. Upon such defeasance all rights of the District, including its right to provide for optional redemption of Bonds on dates other than planned pursuant to such defeasance, shall cease unless specifically retained by filing a written notification thereof with the Trustee on or prior to the date the Government Securities are deposited with the Trustee. When a Bond is deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefits of this Resolution, except for the purposes of any such payment from such money or Government Securities and except for the provisions of this Section, Section 3.3, 3.5, 3.6, 3.8, 3.9, 3.10, 6.5, 13.2, 13.3, 13.5 and Article XII and the District shall continue to be subject to the provisions of Section 10.5.

Section 11.3. Notice of Defeasance.

(a) If money or noncallable Government Securities have been deposited with the Trustee pursuant to Section 11.2 for payment of less than all Bonds of a Series and maturity, the Bonds of such Series and maturity to be so paid from such deposit shall be selected by the Trustee by lot by such method as shall provide for the selection of portions (in authorized denominations) of the Principal of Bonds of such Series and maturity of a denomination larger than the smallest authorized denomination. Such selection shall be made within seven (7) days after the money or Government Securities have been deposited with the Trustee. This selection process shall be in lieu of the selection process otherwise provided with respect to redemption of Bonds in Article V. After such selection is made, Bonds that are to be paid from such deposit (including Bonds issued in exchange for such Bonds pursuant to the transfer or exchange provisions of this Resolution) shall be identified by a separate CUSIP number or other designation satisfactory to the Trustee. The Trustee shall notify Owners whose Bonds (or portions thereof) have been selected for payment from the money or Government Securities on deposit and shall direct such Owners to surrender their Bonds to the Trustee in exchange for Bonds with the appropriate designation. The selection of Bonds for payment from such deposit pursuant to this subsection shall be conclusive and binding on the District. The District shall give to the Trustee in form satisfactory to it irrevocable instructions to give notice of the deposit of money or Government Securities, the selection of Bonds to be redeemed including CUSIP numbers and the anticipated date of redemption. The Trustee shall promptly give such notice to the Owners including the information required under Section 5.3.

(b) In case any of the Bonds, for the payment of which money or Government Securities have been deposited with the Trustee pursuant to Section 11.2, are to be redeemed on any date prior to their maturity, the District, in addition to any notice required under subsection (a) of this Section, shall give to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Bonds on the redemption date for such Bonds as provided in Section 5.3.

(c) In addition to the foregoing notice, in the event such Bonds to be redeemed are not by their terms subject to redemption within the next succeeding 91 days, the Trustee shall give further notice to the Owners that the deposit required by Section 11.2 has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Article and stating the maturity or redemption date or dates upon which money is to be available for the payment of the Principal, Purchase Price or Redemption Price of said Bonds; such further notice shall be given promptly following the making of the deposit required by Section 11.2; and such further notice also shall be given in the manner set forth in Section 5.3(c); but no defect in such further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of the deposit.

(d) If the District has retained any rights pursuant to the last sentence of Section 11.2, notice thereof shall be sent to Owners of such Bonds as soon as practicable and not later than any notice required by subsections (a) or (b) of this Section.

ARTICLE XII SUPPLEMENTAL RESOLUTIONS

Section 12.1. Supplemental Resolutions Without Owner Consent.

(a) The District may from time to time and at any time adopt a Supplemental Resolution, without the consent of or notice to any Owner, to effect any one or more of the following:

(i) provide for the issuance of Bonds in accordance with the provisions of this Resolution;

(ii) cure any ambiguity or defect or omission or correct or supplement any provision herein or in any Supplemental Resolution;

(iii) grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee that are not contrary to or inconsistent with this Resolution as then in effect or to subject to the pledge and lien of this Resolution additional revenues, properties or collateral;

(iv) add to the covenants and agreements of the District in this Resolution other covenants and agreements thereafter to be observed by the District or to surrender any right or power herein reserved to or conferred upon the District that are not contrary to or inconsistent with this Resolution as then in effect;

(v) permit the appointment of a co-trustee under this Resolution;

(vi) modify, alter, supplement or amend this Resolution in such manner as shall permit the qualification of this Resolution, if required, under the Trust Indenture

Act of 1939 or, the Securities Act of 1933, as from time to time amended, or any similar federal statute hereafter in effect;

(vii) make any other change herein that the Trustee determines shall not be materially adverse to the interests of the Owners and which does not involve a change described in Section 12.2 requiring consents of specific Owners; or

(viii) amend, modify, alter or replace the Letter of Representations as provided in Section 3.10 or other provisions relating to Book Entry Bonds.

Section 12.2. Supplemental Resolutions Requiring Owner Consent. The District, at any time and from time to time, may adopt a Supplemental Resolution for the purpose of making any modification or amendment to this Resolution, but only with the written consent, given as provided in Section 12.3, of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds at the time such consent is given, and in case less than all of the Bonds then Outstanding are affected by the modification or amendment, of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds so affected at the time such consent is given; provided, that if such modification or amendment will, by its terms, not take effect so long as any Bonds so affected remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. Notwithstanding the foregoing, no modification or amendment contained in any such Supplemental Resolution shall permit any of the following, without the consent of each Owner whose rights are affected thereby: (a) a change in the terms of stated maturity or redemption of any Bond or of any interest thereon; (b) a reduction in the Principal, Purchase Price or Redemption Price of any Bond or in the rate of interest thereon or a change in the currency in which such Bond is payable; (c) the creation of a lien on or a pledge of any part of the money or assets pledged under this Resolution other than as permitted hereby; (d) the granting of a preference or priority of any Bond over any other Bond; (d) a reduction in the aggregate Principal amount of Bonds of which the consent of the Owners is required to effect any such modification or amendment; or (f) a change in the provisions of Section 9.15. Notwithstanding the foregoing, the Owner of any Bond may extend the time for payment of the Principal, Purchase Price or Redemption Price of or interest on such Bond; provided, that upon the occurrence of an Event of Default, funds available hereunder for the payment of the Principal, Purchase Price or Redemption Price of and interest on the Bonds shall not be applied to any payment so extended until all Principal, Purchase Price, Redemption Price and interest payments that have not been extended have first been paid in full. Notice of any Supplemental Resolution executed pursuant to this Section shall be given to the Owners promptly following the adoption thereof by the District.

Section 12.3. Consent of Owners and Opinions. Each Supplemental Resolution executed and delivered pursuant to the provisions of Section 12.2 shall take effect only when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the

Trustee), together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be sent by the Trustee to the Owners, at the expense of the District, by first class mail, postage prepaid; provided, that a failure to mail such request shall not affect the validity of the Supplemental Resolution when consented to as provided hereinafter. Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of Owners of the percentage of Bonds specified in Section 12.2 given as provided in Section 13.12, and (b) the written opinion of Bond Counsel described in Section 12.6. Any such consent shall be binding upon the Owner giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or in lieu thereof (whether or not such subsequent Owner has notice thereof), unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner of such Bonds by filing such revocation with the Trustee prior to the date the Trustee receives the material required in subsections (a) and (b) of this Section. Notwithstanding anything else herein, if a Supplemental Resolution is to become effective under Section 12.2 on the same date as the date of issuance of a Series of Bonds, the consents of the underwriters of such Series of Bonds shall be counted for purposes of Section 12.2 and this Section.

Section 12.4. Consent of Trustee and Qualified Counterparties.

(a) Notwithstanding any provision of this Article to the contrary, the District shall not adopt any Supplemental Resolution that adversely affects the rights, duties or immunities of the Trustee under this Resolution without having received the prior written consent of the Trustee.

(b) Notwithstanding any provision of this Article to the contrary, the District shall not adopt any Supplemental Resolution that materially and adversely affects the rights or duties of any Qualified Counterparty under this Resolution without having received the prior written consent of each such Qualified Counterparty.

Section 12.5. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in this Article may, and, if the District so determines, shall bear a notation by endorsement or otherwise in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of such Bond for the purpose at the office of the Trustee, or upon any transfer of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer by the Trustee as to any such action. If the District shall so determine, new Bonds so modified as in the opinion of the Trustee and the District to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Owner of any Bond then Outstanding shall be exchanged, without cost to such Owner for Bonds then Outstanding, upon surrender of such Bonds for Bonds of an equal aggregate principal amount and of the same Series, maturity and interest rate, in any authorized denomination.

Section 12.6. Delivery of Opinion. Subject to the provisions of Section 10.1, the Trustee in executing or accepting the additional trusts permitted by this Article or the modifications thereby of the trusts created by this Resolution may rely, and shall be fully protected in relying, on an opinion of Bond Counsel acceptable to it stating that (a) the execution of such Supplemental Resolution is authorized or permitted by this Resolution, (b) all conditions precedent to the execution and delivery of such Supplemental Resolution have been complied with and (c) the execution and performance of such Supplemental Resolution will not, in and of itself, adversely affect the federal income tax status of interest on the Tax-Exempt Bonds. The Trustee may accept and rely upon such opinion of Bond Counsel as conclusive evidence that any Supplemental Resolution executed pursuant to the provisions of this Article complies with the requirements of this Article.

Section 12.7. Effect of Supplemental Resolutions. Upon the adoption of any Supplemental Resolution under this Article, this Resolution shall be modified in accordance therewith, and such Supplemental Resolution shall form a part of this Resolution for all purposes; and every Owner of any Bond theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

ARTICLE XIII MISCELLANEOUS

Section 13.1. Resolution a Contract. This Resolution is adopted under the authority of and in full compliance with the Constitution and Laws of the State of Washington, including Title 54 of the Revised Code of Washington, as amended and supplemented. In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of this Resolution and of any Supplemental Resolution and of such laws shall constitute a contract with the Owner of each Bond, and the obligations of the District and its Commission under such acts and under this Resolution shall be enforceable by any court of competent jurisdiction; and the covenants and agreements herein set forth to be performed on behalf of the District shall be for the equal benefit, protection and security of the Owners of any and all of such Bonds, all of which, regardless of the time or times of their issue or maturity or date of , shall be of equal rank without preference, priority or distinction of any of such Bonds over any others thereof except as expressly provided herein or in any Supplemental Resolution.

Section 13.2. Liability of District Limited to Revenues. Notwithstanding anything in this Resolution or in the Bonds to the contrary, the District shall not be required to advance any money derived from any source other than the Revenues, after payment of Operation and Maintenance Expenses, and the other money and assets pledged hereunder for the payment of the Bonds or for any other purpose of this Resolution. The general funds of the District are not liable for the payment of the Bonds or the Payment Agreement Payments, nor is the credit or taxing power of the District pledged to the payment thereof . No Owner may compel the exercise of the taxing power

of the District or the forfeiture of any of its property. The Bonds are not a debt of the District nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Revenues, after payment of Operation and Maintenance Expenses, and the other money and assets that are pledged thereto pursuant to this Resolution.

Section 13.3. No Personal Liability. No Commission member, officer, agent or employee of the District or the Trustee shall be individually or personally liable for the payment of the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such Commission member, officer, agent or employee of the District or the Trustee from the performance of any official duty provided by law or by this Resolution.

Section 13.4. Limitation of Rights. Nothing in this Resolution or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the District, the Trustee, each Credit Facility Provider, each Qualified Counterparty and the Owners from time to time of the Bonds any rights, remedies or claims under or by reason of this Resolution or any covenant, condition or provision herein or therein contained; and all the covenants, conditions and provisions in this Resolution contained are and shall be held to be for the sole and exclusive benefit of the District, the Trustee, each Credit Facility Provider, each Qualified Counterparty and the Owners from time to time of the Bonds. Each such Credit Facility Provider and Qualified Counterparty shall be a third-party beneficiary of this Resolution.

Section 13.5. Credit Facility Provider Rights. Except as otherwise provided in the Supplemental Resolution authorizing the issuance of a Series of Bonds, if the Credit Facility Provider with respect to such Series of Bonds is not in default in respect of any of its obligations under the Credit Facility securing such Series of Bonds, the following shall apply:

(a) Such Credit Facility Provider, and not the actual Owners, shall be deemed to be the Owner of such Series of Bonds at all times for the purposes of (i) giving any approval or consent to the effectiveness of any Supplemental Resolution other than a Supplemental Resolution providing for (A) a change in the terms of redemption, purchase or maturity of the principal of any Outstanding Bond of such Series or any interest thereon or a reduction the Principal amount, Purchase Price or Redemption Price thereof or in the rate of interest thereon, or (B) a reduction in the percentage of Owners required to approve or consent to the effectiveness of any Supplemental Resolution, and (ii) giving any approval or consent or exercising any remedies in connection with the occurrence of an Event of Default.

(b) Any amendment to this Resolution requiring the consent of Owners of such Series of Bonds shall also require the prior written consent of such Credit Facility Provider.

(c) Any amendment to this Resolution not requiring the consent of Owners of such Series of Bonds shall require the prior written consent of such Credit Facility Provider if its rights shall be materially and adversely affected by such amendment.

(d) The prior written consent of such Credit Facility Provider shall be a condition precedent to the substitution by the District of any Reserve Account Credit Policy for cash deposited in any Reserve Account securing such Series of Bonds.

(e) In the event the maturity of the Bonds is accelerated, such Credit Facility Provider may elect, in its sole discretion, to pay the accelerated Principal of such Series of Bonds and interest thereon to the date of acceleration (to the extent unpaid by the District). Upon payment of such accelerated Principal and interest, the obligations of such Credit Facility Provider under such Credit Facility with respect to such Series of Bonds shall be fully discharged.

(f) Such Credit Facility Provider shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner of such Series of Bonds in accordance with this Resolution.

(g) Such Credit Facility Provider shall, to the extent it makes any payment of Principal or Purchase Price of or interest on such Series of Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of such Credit Facility.

(h) The Principal or Purchase Price of or interest on such Series of Bonds paid by such Credit Facility Provider under such Credit Facility shall not be deemed paid for purposes of this Resolution, and the Bonds with respect to which such payments were made shall remain Outstanding and continue to be due and owing until paid by the District in accordance with this Resolution.

(i) In the event of any defeasance of such Series of Bonds, the District shall provide such Credit Facility Provider with copies of all documents required by Article XI to be delivered to the Trustee.

(j) The District shall not discharge this Resolution unless all amounts due or to become due to such Credit Facility Provider have been paid in full or duly provided for.

(k) The District shall send or cause to be sent to such Credit Facility Provider copies of notices required to be sent to Owners or the Trustee under this Resolution.

(l) The District shall observe any payment procedures under such Credit Facility required by such Credit Facility Provider as a condition to the issuance and delivery of the Credit Facility.

Section 13.6. Severability. If any term or provision of this Resolution or the Bonds shall be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever, and such term and provision shall be valid and enforced to the fullest extent permitted by law.

Section 13.7. Notices. Except as otherwise provided herein, all notices, certificates or other communications hereunder shall be in writing and shall be deemed given upon receipt, by hand delivery, mail, overnight delivery, telecopy or other electronic means addressed as follows: to the District at 327 North Wenatchee Avenue, Wenatchee, Washington 98801, Attention: Treasurer; and to the Trustee at such address as shall be designated by the Trustee in writing at the time of their appointment. In case by reason of the suspension of regular mail service, it shall be impracticable to give notice by first class mail of any event to any Owner, the District when such notice is required to be given pursuant to any provisions of this Resolution, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be sufficient giving of such notice. The District and the Trustee may, by notice pursuant to this Section, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 13.8. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Resolution, is not a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Resolution and except as otherwise provided in a Supplemental Resolution, no interest shall accrue on the payment so deferred during the intervening period.

Section 13.9. Applicable Law. This Resolution shall be governed in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the United States of America and of the State.

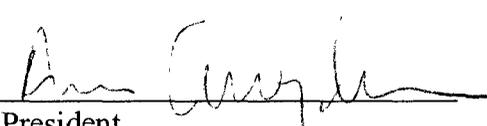
Section 13.10. Successors and Assigns. All the covenants, promises and agreements in this Resolution contained by or on behalf of the District, or by or on behalf of the Trustee, shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 13.11. Form of Documents Delivered to Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such person, or that they be so certified or covered by only one document,

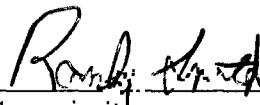
but one such person may certify or give an opinion with respect to some matters and one or more other such persons as to other matters, and any such person may certify or give an opinion as to such matters in one or several documents. Any Certificate of the District may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such official or officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which such official's certificate or opinion is based are erroneous. Any opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an official or officials of the District stating that the information with respect to such factual matters is in the possession of the District, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous. Where any person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Resolution, they may, but need not, be consolidated and form one instrument.

Section 13.12. Consent of Owners. Any consent, request, direction, approval, objection or other instrument required by this Resolution to be signed and executed by the Owners may be in any number of concurrent writings of similar tenor and must be signed or executed by such Owners in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of this Resolution, and shall be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument, namely: (a) the fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged the execution thereof, or by an affidavit of any witness to such execution; and (b) the Trustee may establish a record date for the purpose of identifying Owners entitled to issue any such consent, request, direction, approval or instrument.

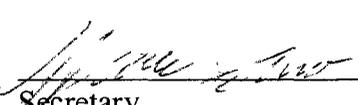
Dated this 12th day of March 2007.



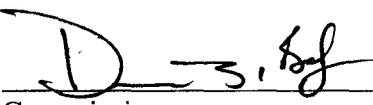
Vice President



Commissioner

President


Secretary



Commissioner

Seal

RESOLUTION NO. 07-13067

A RESOLUTION CONFIRMING AND CONTINUING THE CONSOLIDATION OF THE DISTRIBUTION DIVISION, THE LAKE CHELAN SYSTEM, THE WATER SYSTEM, THE WASTEWATER SYSTEM AND THE FIBER OPTICS SYSTEM OF PUBLIC UTILITY DISTRICT NO.1 OF CHELAN COUNTY, WASHINGTON; DISCONTINUING THE CONSOLIDATION OF THE ROCK ISLAND SYSTEM AND THE ROCKY REACH SYSTEM INTO THE CHELAN HYDRO CONSOLIDATED SYSTEM; RENAMING THE CHELAN HYDRO CONSOLIDATED SYSTEM; CREATING AND ESTABLISHING AN ISSUE OF REVENUE BONDS OF THE DISTRICT TO FINANCE ANY LAWFUL PURPOSE OF THE DISTRICT; PROVIDING FOR THE PAYMENT OF SUCH BONDS FROM REVENUES OF THE CONSOLIDATED SYSTEM; AND MAKING CERTAIN OTHER COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING.

ARTICLE I	DEFINITIONS AND GENERAL PROVISIONS.....	3
Section 1.1.	Definitions.....	3
Section 1.2.	Rules of Interpretation	15
Section 1.3.	Content of Certificates and Opinions.....	15
ARTICLE II	THE CONSOLIDATED SYSTEM.....	16
Section 2.1.	Continuation of the Consolidated System.....	16
Section 2.2.	Discontinuance of Consolidation of Rock Island System and Rocky Reach System.....	17
Section 2.3.	Renaming of Chelan Hydro Consolidated System	17
Section 2.4.	Obligations of Existing Systems.....	17
Section 2.5.	Application of Original Resolutions.....	18
Section 2.6.	Prior Liens.....	18
ARTICLE III	AUTHORIZATION AND GENERAL TERMS AND PROVISIONS OF THE BONDS.....	18
Section 3.1.	Authorization of Bonds.....	18
Section 3.2.	Payment of Bonds	19
Section 3.3.	Execution and Authentication of Bonds	19
Section 3.4.	Form of Bonds	19
Section 3.5.	Registration of Transfer and Exchange of Bonds.....	19
Section 3.6.	Persons Treated as Owners	20
Section 3.7.	Temporary Bonds.....	20
Section 3.8.	Mutilated, Lost or Destroyed Bonds.....	20
Section 3.9.	Cancellation and Disposition of Bonds.....	21
Section 3.10.	Securities Depository Provisions.....	21
Section 3.11.	Disposition of Unclaimed Funds	22
ARTICLE IV	ISSUANCE OF BONDS	23
Section 4.1.	Series of Bonds; Terms of Supplemental Resolutions.....	23
Section 4.2.	Limitations on Issuance of Bonds.....	23
Section 4.3.	Conditions for the Issuance of Bonds	24
Section 4.4.	Additional Bonds Certification	25
Section 4.5.	Conditions for Issuance of Refunding Bonds	26
Section 4.6.	No Additional Senior Obligations	27
Section 4.7.	Subordinate Obligations.....	27

Section 4.8.	Application of Proceeds	27
ARTICLE V	REDEMPTION OF BONDS	28
Section 5.1.	Terms of Redemption	28
Section 5.2.	Selection of Bonds for Redemption.....	28
Section 5.3.	Notice of Redemption.....	28
Section 5.4.	Purchase at any Time	29
ARTICLE VI	CONTINUATION OF REVENUE FUND; PLEDGE OF REVENUES; CREATION OF FUNDS AND PAYMENTS THEREFROM; INVESTMENTS	30
Section 6.1.	Revenue Fund	30
Section 6.2.	Pledge of Revenues.....	30
Section 6.3.	Equality of Security	31
Section 6.4.	Flow of Funds	31
Section 6.5.	Bond Funds	32
Section 6.6.	Reserve Fund	34
Section 6.7.	Construction Funds	36
Section 6.8.	Payments from the Construction Funds.....	36
Section 6.9.	Rate Stabilization Fund.....	37
Section 6.10.	Rebate Funds.....	37
ARTICLE VII	INVESTMENT OR DEPOSIT OF FUNDS	38
Section 7.1.	Deposits and Security Therefor	38
Section 7.2.	Investment or Deposit of Funds.....	38
Section 7.3.	Valuation of Funds.....	39
ARTICLE VIII	COVENANTS OF THE DISTRICT	39
Section 8.1.	Maintenance of Existence and Powers	39
Section 8.2.	Operation and Maintenance of the Consolidated System	39
Section 8.3.	Rates and Charges.....	40
Section 8.4.	Sinking Funds for Balloon Bonds.....	41
Section 8.5.	Protection of Security	41
Section 8.6.	Take-or-Pay Contracts	42
Section 8.7.	Power Purchase Agreements.....	42
Section 8.8.	No Free Service.....	42
Section 8.9.	Not to Dispose of System Properties	42

Section 8.10.	Insurance	43
Section 8.11.	Eminent Domain	43
Section 8.12.	Financial Reports	44
Section 8.13.	Payment of Bonds	44
Section 8.14.	Payment of Taxes and Claims.....	44
Section 8.15.	Tax Covenants	44
Section 8.16.	Original Resolutions	45
Section 8.17.	Further Assurances.....	45
ARTICLE IX	DEFAULTS AND REMEDIES	45
Section 9.1.	Events of Default	45
Section 9.2.	Remedies Upon Default.....	46
Section 9.3.	Additional Remedies.....	46
Section 9.4.	Marshaling of Assets.....	47
Section 9.5.	Trustee May File Proofs of Claim	47
Section 9.6.	Possession of Bonds Not Required.....	48
Section 9.7.	Notice and Opportunity to Cure Certain Defaults	48
Section 9.8.	Priority of Payment Following Event of Default.....	48
Section 9.9.	Owners May Direct Proceedings	50
Section 9.10.	Limitations on Rights of Owners.....	50
Section 9.11.	Unconditional Right of Owners To Receive Payment.....	51
Section 9.12.	Restoration of Rights and Remedies.....	51
Section 9.13.	Rights and Remedies Cumulative.....	51
Section 9.14.	Delay or Omission Not Waiver.....	51
Section 9.15.	Waiver of Defaults.....	52
Section 9.16.	Notice of Events of Default	52
ARTICLE X	THE TRUSTEE	52
Section 10.1.	Appointment; Duties and Responsibilities of the Trustee.....	52
Section 10.2.	Certain Rights of the Trustee	53
Section 10.3.	Trustee Not Responsible for Recitals	55
Section 10.4.	Trustee May Own Bonds	55
Section 10.5.	Compensation and Expenses of the Trustee	56
Section 10.6.	Qualifications of the Trustee.....	56

Section 10.7.	Resignation or Removal of the Trustee; Appointment of Successor Trustee.....	57
Section 10.8.	Acceptance of Appointment by Successor Trustee	58
Section 10.9.	Merger, Succession or Consolidation of Trustee	58
Section 10.10.	Notices to Owners; Waiver	58
ARTICLE XI	DISCHARGE AND DEFEASANCE	60
Section 11.1.	Discharge	60
Section 11.2.	Defeasance	60
Section 11.3.	Notice of Defeasance	61
ARTICLE XII	SUPPLEMENTAL RESOLUTIONS	62
Section 12.1.	Supplemental Resolutions Without Owner Consent.....	62
Section 12.2.	Supplemental Resolutions Requiring Owner Consent.....	63
Section 12.3.	Consent of Owners and Opinions	64
Section 12.4.	Consent of Trustee and Qualified Counterparties.....	64
Section 12.5.	Notation on Bonds	65
Section 12.6.	Delivery of Opinion	65
Section 12.7.	Effect of Supplemental Resolutions.....	65
ARTICLE XIII	MISCELLANEOUS	65
Section 13.1.	Resolution a Contract.....	65
Section 13.2.	Liability of District Limited to Revenues	66
Section 13.3.	No Personal Liability	66
Section 13.4.	Limitation of Rights	66
Section 13.5.	Credit Facility Provider Rights	66
Section 13.6.	Severability	68
Section 13.7.	Notices	68
Section 13.8.	Holidays	68
Section 13.9.	Applicable Law	69
Section 13.10.	Successors and Assigns.....	69
Section 13.11.	Form of Documents Delivered to Trustee	69
Section 13.12.	Consent of Owners.....	69