

OFFICIAL STATEMENT DATED DECEMBER 4, 2006

NEW ISSUE — BOOK ENTRY ONLY

RATINGS[†] — Moody's: "Aa3"
S&P: "AA-"

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, and interest on the Bonds will not be subject to the alternative minimum tax on individuals. See "TAX MATTERS" herein for a description of the opinion and other tax consequences.



\$2,336,375,000

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
GAS SUPPLY REVENUE BONDS

\$485,000,000

SENIOR LIEN SERIES 2006A
(Fixed Rate)

\$1,851,375,000

SENIOR LIEN SERIES 2006B
(Index Rate)

Interest Accrual Date: Date of Delivery

Due: As shown inside the cover

The Series 2006A Bonds will bear interest at the fixed rates and mature on the dates set forth inside the cover page. The Series 2006B Bonds will bear interest at the variable rates and mature on the dates set forth inside the cover page. Interest on the Senior Lien Bonds of each series will accrue from their delivery date. Interest on the Fixed Rate Bonds will be payable on each June 15 and December 15, commencing on June 15, 2007. Interest on the Index Rate Bonds will be payable on each March 15, June 15, September 15, and December 15, commencing on June 15, 2007. The Senior Lien Bonds will be issued in denominations of \$5,000 and multiples thereof.

The Senior Lien Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption prior to maturity as set forth herein.

The Senior Lien Bonds will be issued as fully registered bonds, initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company. Purchases of the Senior Lien Bonds will be made in book entry form only, as described herein.

The Senior Lien Bonds are being issued to finance prepayment of the purchase price for an approximately 20-year supply of natural gas to be sold to the Issuer by Merrill Lynch Commodities, Inc. The Issuer intends to resell the natural gas through affiliates to local governments in Texas and elsewhere for use in their public gas or electric utility systems. The Senior Lien Bonds will be secured under an Indenture of Trust and Security Agreement between the Issuer and The Bank of New York Trust Company, N.A., as Bond Trustee.

The Senior Lien Bonds will be limited recourse obligations of the Issuer, payable solely from and to the extent of, and secured by a pledge of, the property and revenues pledged for that purpose under the Indenture. Neither the Issuer's sponsoring municipality and its affiliates nor any purchasing municipalities will be obligated or are authorized to pay the principal of and interest on the Senior Lien Bonds. Purchases of the Senior Lien Bonds involve certain investment considerations as described herein.

Concurrently with the issuance of the Senior Lien Bonds, the Issuer is issuing Subordinate Lien Bonds for the purpose of funding a Debt Service Reserve Fund, a Price Swap Reserve Fund, and Rate Swap Reserve Funds to be held under the Indenture. The Subordinate Lien Bonds will be secured under the Indenture by a lien on the Trust Estate that is subordinate to the lien securing the Senior Lien Bonds.

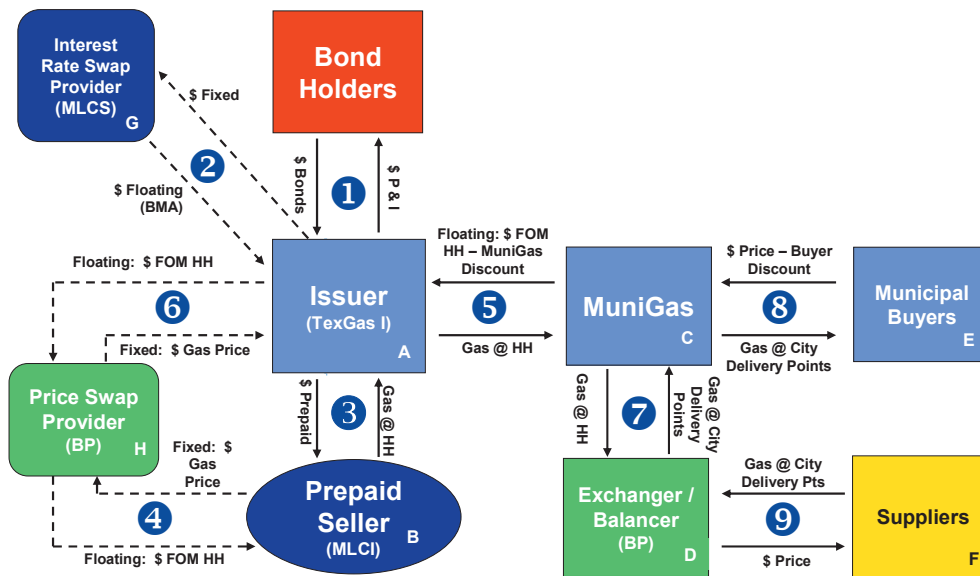
MATURITY AND PRICING SCHEDULE — See Inside Cover Page

The Senior Lien Bonds are offered by Merrill Lynch & Co. when, as and if issued, subject to prior sale, the approving opinion of the Attorney General of the State of Texas and the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Issuer by Fulbright & Jaworski L.L.P. and for the Underwriter by its counsel, Vinson & Elkins L.L.P., and by its special counsel regarding certain federal tax matters, Nixon Peabody LLP. It is expected that the Senior Lien Bonds will be available for delivery through DTC on or about December 20, 2006.

MERRILL LYNCH & CO.

[†] For an explanation of the Ratings, see "Ratings" herein.

TexGas I – Prepaid Gas Financing Structure



Prepared by:
MERC Municipal Energy Resources Corporation

Transaction Overview *

- 1 The Issuer (A) will issue senior fixed and floating rate Bonds to fund a prepayment for natural gas and issue subordinate fixed rate bonds to fund cash reserves.
- 2 The Issuer will enter into an interest Rate Swap with an interest Rate Swap Provider – Merrill Lynch Capital Services Inc. (“MLCS”) (G) – to effectively fix its net interest rate expense for the floating rate senior lien bonds.
- 3 The Issuer will apply senior lien bond proceeds to prepay the purchase price for an approximately 20-year supply of natural gas to be sold to the Issuer by Merrill Lynch Commodities Inc. (“MLCI”) (B). Under the Prepaid Contract, MLCI will be obligated (a) to deliver specified monthly quantities of gas to the Issuer for approximately 20 years at Henry Hub (“HH”), (b) to make payments for any gas not delivered based on the HH FOM Index, and (c) to make or guaranty collection of a termination payment upon any early termination of the Prepaid Contract in whole or in part.
- 4 MLCI will enter into a natural gas Seller Price Swap with a Price Swap Provider – BP Corporation North America Inc. (H) – to facilitate MLCI’s ability to purchase at market prices the specified gas volumes required to be delivered each month throughout the term of the Prepaid Contract.
- 5 Under a Resale Contract, the Issuer has agreed to sell 100% of the gas delivered by MLCI to MuniGas (C), at Henry Hub, on a pay-as-you-go basis, at a price equal to the HH FOM Index less a discount set such that the month’s net proceeds under the Resale Contract (net of swap payments and receipts and investment income) will allow the Issuer to make scheduled deposits to the senior and subordinate interest and principal accounts and pay all of its expenses.
- 6 The Issuer will enter into a natural gas Price Swap with the Price Swap Provider – BP Corporation North America Inc. (H) – to effectively fix the net price at which gas is sold to MuniGas under the Resale Contract before application of the price Discount.
- 7 Under a Gas Exchange and Annual Balancing Agreement between MuniGas and an Exchanger/Balancer – BP Energy Company (D) – for an initial three-year term and thereafter if extended by the parties, the Exchanger/Balancer will (a) accept from MuniGas the gas acquired by MuniGas at Henry Hub in exchange for an equal value of gas at the respective receipt points of the Municipal Buyers (E) (with the gas delivered by MuniGas at Henry Hub valued at a price based on the HH FOM Index for the month of delivery and gas delivered to Municipal Buyers valued at cost), (b) deliver to or receive from MuniGas a cash deposit to secure any imbalance between the values of deliveries at HH and deliveries to Municipal Buyers, and (c) purchase from MuniGas any surplus gas that is not timely sold to Municipal Buyers.
- 8 Under the Cooperative Contract and the terms of sale to Spot Buyers, MuniGas will sell the gas received from the Exchanger/Balancer to Municipal Buyers on a pay-as-you-go basis at a variable discount from the value of such gas credited to the Exchanger/Balancer under the Exchange and Balancing Agreement. Spot Buyers are expected to receive a lower discount than Cooperative Buyers under the Cooperative Contract.
- 9 To make deliveries to MuniGas under the Exchange and Balancing Agreement, the Exchanger/Balancer will purchase gas from natural gas dealers and other Suppliers (F), and will be credited its purchase cost for the deliveries.

The cumulative effect of the Prepay Contract, the Resale Contract, the Exchange and Balancing Agreement, the Cooperative Contract, the Spot Gas Sales Contracts, the Price Swap, and related documents is intended to enable the Issuer to receive dependable resulting monthly net revenues, regardless of changes in gas prices, interest rates or transportation costs, which are expected to be adequate, together with receipts (less payments made) under the Rate Swap, to pay debt service requirements on the Bonds and program expenses when due and to produce an operating margin that is passed through to MuniGas and then to the Municipal Buyers in the form of monthly discounts and later rebates. The Issuer and MuniGas have engaged Municipal Energy Resources Partners, Ltd. to administer the program being financed by the Bonds.

* The illustration and information provided above are only a summary of certain information contained in this Official Statement and are qualified in their entirety by the more detailed information appearing elsewhere in this Official Statement. No person is authorized to detach this page from the Official Statement or to use it otherwise without the entire Official Statement.

MATURITY AND PRICING SCHEDULE

\$485,000,000
TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
GAS SUPPLY REVENUE BONDS
SENIOR LIEN SERIES 2006A
(Fixed Rate)

Maturity (December 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP No. ⁽¹⁾
2007 *	\$10,000,000 *	5.00% *	3.57% *	88256CAA7 *
2010	\$25,000,000	5.00%	3.64%	88256CAB5
2011	\$25,000,000	5.00%	3.67%	88256CAC3
2012	\$25,000,000	5.00%	3.73%	88256CAD1
2013	\$25,000,000	5.00%	3.77%	88256CAE9
2014	\$25,000,000	5.00%	3.80%	88256CAF6
2015	\$25,000,000	5.00%	3.84%	88256CAG4
2016	\$25,000,000	5.00%	3.88%	88256CAH2
2017	\$30,000,000	5.25%	3.92%	88256CAJ8
2018	\$30,000,000	5.25%	3.96%	88256CAK5
2019	\$30,000,000	5.25%	4.00%	88256CAL3
2020	\$30,000,000	5.25%	4.03%	88256CAM1
2021	\$30,000,000	5.25%	4.05%	88256CAN9
2022	\$30,000,000	5.25%	4.06%	88256CAP4
2023	\$30,000,000	5.25%	4.07%	88256CAQ2
2024	\$30,000,000	5.25%	4.09%	88256CAR0
2025	\$30,000,000	5.25%	4.11%	88256CAS8
2026	\$30,000,000	5.25%	4.13%	88256CAT6

\$1,851,375,000
TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I
GAS SUPPLY REVENUE BONDS
SENIOR LIEN SERIES 2006B
(Index Rate)

\$116,060,000 Series 2006B Variable (Index) Rate ⁽²⁾ Term Bonds due December 15, 2009; Price: 100%; CUSIP 88256CAU3 ⁽¹⁾

\$559,850,000 Series 2006B Variable (Index) Rate ⁽²⁾ Term Bonds due December 15, 2017; Price: 100%; CUSIP 88256CAV1 ⁽¹⁾

\$1,175,465,000 Series 2006B Variable (Index) Rate ⁽²⁾ Term Bonds due December 15, 2026; Price: 100%; CUSIP 88256CAW9 ⁽¹⁾

(1) CUSIP numbers have been assigned to the Senior Lien Bonds by Standard & Poor's CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc. and are included solely for the convenience of the owners of the Senior Lien Bonds. Neither the Issuer nor the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) The Series 2006B Bonds will bear interest from their date of delivery or from the most recent interest payment date therefor to which interest has been paid or duly provided for, to the next succeeding interest payment date therefor at a per annum rate equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.33% for the 2009 Term Bond, 0.55% for the 2017 Term Bond, and 0.70% for the 2026 Term Bond; provided that the Index Rate will never exceed the Maximum Rate of 15% per annum, except that, for the initial interest period from the delivery date to the first interest payment date of June 15, 2007, a linear interpolation between the three-month LIBOR rate and the six-month LIBOR rate will be substituted for the Three-Month LIBOR Rate.

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SALE AND DISTRIBUTION OF THE BONDS

Use of Information in Official Statement

No dealer, broker, salesman or other person has been authorized by the Issuer to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. All other information contained herein has been obtained from the Issuer, DTC and other sources which are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as, or construed as a promise or representation by, the Issuer or the Underwriter.

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of any Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SENIOR LIEN BONDS AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Certain information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter.

All of the summaries of the statutes, resolutions, contracts, financial statements, reports, agreements, and other related documents set forth in this Official Statement are qualified in their entirety by reference to such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer.

Securities Laws

The Senior Lien Bonds are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. Any registration, qualification, or exemption of the Senior Lien Bonds in accordance with the applicable securities law provisions of the jurisdictions in which the Senior Lien Bonds may have been registered, qualified, or exempted should not be regarded as a recommendation thereof.

These Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the offering, including the merits and risks involved.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SENIOR LIEN BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Special Cautionary Notice Regarding Forward-Looking Statements

This Official Statement contains “forward-looking statements,” which generally can be identified with words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “foresees,” “may,” “plan,” “predict,” “should,” “will” or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under “Investment Considerations” in this Official Statement, as well as additional factors beyond the Issuer’s control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Issuer’s business or operations. All subsequent forward-looking statements attributable to the Issuer or persons acting on its behalf are expressly qualified in their entirety by the factors and assumptions described above and in any documents containing those forward-looking statements. No person has any obligation to prepare or release any updates or revisions to any forward-looking statement.

OFFICIAL STATEMENT

\$2,336,375,000

TEXAS MUNICIPAL GAS ACQUISITION AND SUPPLY CORPORATION I GAS SUPPLY REVENUE BONDS

\$485,000,000

SENIOR LIEN SERIES 2006A
(Fixed Rate)

\$1,851,375,000

SENIOR LIEN SERIES 2006B
(Index Rate)

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices hereto, is provided to furnish information regarding the offer and sale by Texas Municipal Gas Acquisition and Supply Corporation I (the “*Issuer*”) of its Gas Supply Revenue Bonds Senior Lien Series 2006A (the “*Fixed Rate Bonds*”) in the aggregate principal amount of \$485,000,000 and Senior Lien Series 2006B (the “*Index Rate Bonds*”) and, together with the Fixed Rate Bonds, the “*Senior Lien Bonds*”) in the aggregate principal amount of \$1,851,375,000. The Senior Lien Bonds are being issued under an Indenture of Trust and Security Agreement, dated as of December 1, 2006 (the “*Indenture*”), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the “*Bond Trustee*”), pursuant to and in accordance with the provisions of the Public Facility Corporation Act, Chapter 303, Texas Local Government Code (the “*Act*”), and other applicable law.

The Senior Lien Bonds are being issued (i) to finance prepayment of the purchase price for an approximately 20-year supply of natural gas to be purchased by the Issuer under a Prepaid Natural Gas Supply Contract, dated as of December 1, 2006, (the “*Prepaid Contract*”) between the Issuer and Merrill Lynch Commodities, Inc. (“*MLCI*”) and (ii) to pay the costs of issuance of the Senior Lien Bonds. The Issuer has agreed to sell the natural gas acquired under the Prepaid Contract to an affiliate for resale to local governments in Texas and elsewhere for use in their public gas or electric utility systems in order to reduce their cost of natural gas.

Concurrently with the issuance of the Senior Lien Bonds, the Issuer is issuing its Gas Supply Revenue Bonds, Subordinate Lien Series 2006C (the “*Subordinate Lien Bonds*”) for the purpose of funding a Debt Service Reserve Fund, a Price Swap Reserve Fund, a Senior Rate Swap Reserve Fund, and a Subordinate Rate Swap Reserve Fund to be created under the Indenture. The Subordinate Lien Bonds will be secured by a lien on the Trust Estate granted under the Indenture that is subordinate to the lien of the Senior Lien Bonds. The Senior Lien Bonds and the Subordinate Lien Bonds are collectively referred to herein as the “*Bonds*.”

Capitalized terms not otherwise defined herein have the meanings stated in Appendix A.

The Issuer, MuniGas, and MuniGas’ Cooperative Municipal Gas Purchasing Program

Since 2001, Texas Municipal Gas Corporation (“*TMGC I*”), a Texas public facility corporation created with approval of the City of La Grange, Texas (the “*Sponsor*”), has been supplying gas (produced from previously acquired natural gas production payments and a natural gas royalty) under a joint gas purchasing program to Texas municipal gas and electric utilities at a discount from prevailing market prices for natural gas.

In order to continue TMGC I’s program on more efficient and flexible terms, the Issuer was created in 2005 to acquire additional supplies of natural gas, and Municipal Gas Acquisition and Supply Corporation (“*MuniGas*”) was created in 2004 to transport or exchange and market natural gas supplies to municipalities, other local governments, and Texas state agencies. The Issuer and MuniGas are public non-profit corporations created with the approval of the Sponsor under the Act.

The Issuer intends to resell all of the natural gas purchased under the Prepaid Contract, on a pay-as-you-go basis, through the Sponsor to MuniGas pursuant to a Natural Gas Supply Contract (the “*Resale Contract*”) dated as of December 1, 2006 among the Issuer, the Sponsor, and MuniGas. MuniGas will in turn sell such natural gas through the Sponsor to municipal utilities located in Texas or elsewhere, pursuant to a Joint Gas Purchase Contract, dated as of January 1, 2006 (the “*Cooperative Contract*”), among MuniGas, the Sponsor, and such municipal utilities, local governments, and state agencies that from time to time become a party to the Cooperative Contract (each a “*Cooperative Buyer*” and, collectively,

“*Cooperative Buyers*”) to the extent of their requirements not supplied by TMGC I’s existing production and any annual ceiling agreed to with a Cooperative Buyer. MuniGas intends to sell any remaining natural gas purchased under the Resale Contract to other qualified buyers in the spot market (the “*Spot Buyers*” and, together with the Cooperative Buyers, “*Municipal Buyers*”). See “MuniGas Cooperative Gas Purchasing Program – Joint Gas Purchase Contract” herein.

It is expected that other similar public facility corporations will be organized in the future with the approval of the Sponsor to acquire additional natural gas to be sold to MuniGas under separate supply contracts, and that MuniGas’ payment obligations under such contracts will be secured equally and ratably with the Resale Contract. In that event such other public facility corporations may issue bonds to finance such acquisitions of additional natural gas. However, neither the assets nor the revenues of the other public facility corporations will secure payment of the Bonds.

Transaction Overview

On the date of issuance, the Issuer will use a portion of the proceeds of the Senior Lien Bonds to finance in full prepayment of the purchase price for an approximately 20-year supply of natural gas from MLCI under the Prepaid Contract. During the term of the Prepaid Contract and the Senior Lien Bonds:

(1) Acquisition: Under the Prepaid Contract, MLCI will be obligated (a) to deliver specified monthly quantities of gas to the Issuer at the Henry Hub, a pipeline market center located in Louisiana (“*Henry Hub*”), (b) to make payments for any gas not delivered (based on the FOM Index for Henry Hub referred to herein), and (c) to make a termination payment (or guaranty timely collection of a like amount from the sale of supplemental gas deliveries by MLCI to the Issuer) upon any early termination of the Prepaid Contract in whole or in part; and the payment obligations of MLCI under the Prepaid Contract will be unconditionally guaranteed by Merrill Lynch & Co., Inc. (the “*ML Guarantor*”);

(2) Intermediate Sale: Under the Resale Contract, the Issuer has agreed to sell all of the gas it acquires under the Prepaid Contract (except upon whole or partial termination) to MuniGas, at Henry Hub, at a variable price discount from the FOM Index for Henry Hub, such discount to be determined by the Issuer on a monthly basis and intended to be the maximum discount that nevertheless will enable the Issuer to receive sufficient revenue to pay debt service on the Bonds and expenses of the Issuer and to maintain required cash reserves;

(3) Exchange and Balancing: Under a Gas Exchange and Annual Balancing Agreement, dated as of January 1, 2006, as supplemented (the “*Exchange and Balancing Agreement*”) between MuniGas and BP Energy Company (together with any successor exchanger/balancer under the MuniGas program, the “*Exchanger/Balancer*”), the Exchanger/Balancer will, for fixed compensation payable by MuniGas per MMBtu, (a) exchange the gas acquired by MuniGas at Henry Hub for an equal value of gas delivered by the Exchanger/Balancer to MuniGas at the Municipal Buyers’ respective receipt points (with the gas delivered by MuniGas at Henry Hub to be valued at a price based on the FOM Index for Henry Hub for the month of delivery less a small index differential), (b) deliver to or receive from MuniGas a cash deposit to secure any imbalance between the values of scheduled monthly deliveries at Henry Hub and the value of deliveries to Municipal Buyers, until the imbalance is reversed by deliveries in a future month; and (c) purchase from MuniGas, at the value credited by the Exchanger/Balancer in the month of receipt at Henry Hub, any surplus gas that is not exchanged for gas sold to Municipal Buyers within 24 months, in each case for so long as the Exchange and Balancing Agreement is extended by agreement of the parties thereto or replaced on the same terms after its initial 3-year term;

(4) Ultimate Sale: Under the Cooperative Contract and the terms of sale to Spot Buyers, MuniGas will sell the gas received from the Exchanger/Balancer to Municipal Buyers at a variable price discount from the value of such gas credited to the Exchanger/Balancer under the Exchange and Balancing Agreement;

(5) Price Hedge: The value of the gas sold by the Issuer to MuniGas at Henry Hub will be hedged by a commodity price swap agreement (the “*Price Swap*”) between the Issuer and BP Corporation North America Inc. (the “*Price Swap Provider*”), under terms that are expected to enable the Issuer to receive a revenue stream from the sale of such gas that is substantially fixed for the life of the Prepaid Contract;

(6) Interest Rate Swaps: The Issuer will enter into interest rate swap agreements (collectively, the “*Rate Swaps*”) with Merrill Lynch Capital Services Inc. (the “*Rate Swap Provider*”) in order to hedge the Issuer’s net interest expense associated with the Index Rate Bonds and the Subordinate Lien Bonds, respectively, and achieve net synthetic fixed rate obligations (the Rate Swap with respect to the Index Rate Bonds being referred to herein as

the “*Senior Rate Swap*” and the Rate Swap with respect to the Subordinate Lien Bonds being referred to herein as the “*Subordinate Rate Swap*”), and the Rate Swap Provider’s payment obligations under the Rate Swaps will be guaranteed by Merrill Lynch & Co., Inc. (the ML Guarantor);

(7) Prepaid Seller Price Swap: In order to hedge its exposure under the Prepaid Contract, MLCI will enter into a price swap agreement with the Price Swap Provider (the “*Seller Price Swap*”) under which MLCI will pay a fixed gas price to the Price Swap Provider in return for the Price Swap Provider’s payment to MLCI of a floating index gas price based on the FOM Index for Henry Hub; but nothing in the Seller Price Swap relieves MLCI of its obligation to perform under the Prepaid Contract; and

(8) Guaranteed Investment Contract: Prior to the initial delivery of the Bonds, the Issuer will enter into an investment contract (the “*Investment Contract*”) with DEPFA BANK plc, guarantying fixed rates of interest at which the balance of each of the Debt Service Reserve Fund, the Price Swap Reserve Fund, and the Senior Rate Swap Reserve Fund and monthly deposits to the debt service accounts of the Revenue Fund will be invested pending application for their intended purposes.

For an illustration of the structure of the transaction, see the inside cover page of this Official Statement.

The Issuer will use proceeds of gas sales to MuniGas, together with interest earnings and receipts under the Price Swap and Rate Swaps, to retire the Bonds and pay its ongoing expenses, including payments under the Price Swap and Rate Swaps, in accordance with the flow of funds specified in the Indenture.

The expected cumulative effect of the Prepaid Contract, the Resale Contract, the Price Swap, the Rate Swaps, the Exchange and Balancing Agreement, the Cooperative Contract, and the related documents described herein is to enable the Issuer to receive dependable resulting monthly net revenues, regardless of changes in gas prices, transportation costs, or interest rates. Such monthly revenues, including receipts (but less payments made) under the Rate Swaps, are expected to be adequate to pay debt service requirements on the Bonds and program and operating expenses when due and to produce an operating margin that is intended to be passed through to MuniGas and then, after payment of MuniGas expenses, to the Municipal Buyers in the form of monthly price discounts and later patronage rebates.

Payment of the Senior Lien Bonds will depend largely upon the performance by MLCI of its obligations under the Prepaid Contract and by the Merrill Lynch Capital Services Inc. (as the Rate Swap Provider) of its obligations under the Senior Rate Swap, which are unsecured obligations guaranteed by Merrill Lynch & Co., Inc. as described herein.

In certain circumstances, Bonds may be redeemed in part due to insufficient expected sales to Municipal Buyers for qualified use (to preserve the tax-exempt status of the Bonds) or due to a substantial deficiency in the Debt Service Reserve Fund, Price Swap Reserve Fund, or Senior Rate Swap Reserve Fund, or in whole due to termination of the Prepaid Contract, in each case without market value adjustments, as described herein. For this purpose, MuniGas has agreed to allocate gas purchased under the Resale Contract to sales for qualified use before sales of subsequently financed gas, to the extent consistent with federal income tax regulations. Upon each such redemption, MLCI will be obligated to pay to the Bond Trustee for the account of the Issuer a termination or reduction payment in an amount which, together with any actual collections of the proceeds of sale of supplemental gas deliveries then made by MLCI to the Issuer under the Prepaid Contract, has been calculated to be sufficient (together with deposits to the Senior Interest Account and Senior Principal Account or amounts in the Debt Service Reserve Fund) to pay the redemption price of the Senior Lien Bonds subject to such redemption, assuming timely payment and performance of the Senior Rate Swap and the Investment Contract and prior redemptions of the Senior Lien Bonds pursuant to Mandatory Sinking Fund Redemption as scheduled. If the Bonds are redeemed in part, the quantities of gas to be delivered or paid for under the Prepaid Contract, and amounts payable or receivable under the Senior Rate Swap and the Price Swap will be reduced proportionately as described herein and the Issuer will provide the Bond Trustee with an accountant’s verification that hedged cash flows thereafter will be sufficient to pay senior expenses and the remaining Senior Lien Bonds, assuming timely payment and performance of the parties’ obligations under transaction documents.

In the case of any extraordinary mandatory redemption in part of the Senior Lien Bonds of any maturity, the Issuer will notify the Bond Trustee of the principal amount of such Senior Lien Bonds of each maturity to be redeemed and, if less than all of the Senior Lien Bonds of such maturity or subject to mandatory sinking fund redemption in any year are to be redeemed, the Bond Trustee will select the Index Rate Bonds of such maturity or so subject to redemption for redemption first, until no Index Rate Bonds of such maturity or so subject to redemption remain outstanding, before selecting any Fixed

Rate Bonds of such maturity for redemption. See “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Extraordinary Mandatory Redemption.”

Limited Recourse Obligations

The Bonds will be limited recourse obligations payable by the Issuer solely from and to the extent of revenues and funds pledged for that purpose under the Indenture. **The Bonds will not constitute obligations of the State of Texas, the City of La Grange, Texas, MuniGas, the Municipal Buyers or any other political subdivision or agency thereof. The Issuer has no taxing authority or other available assets or revenue.**

Security for the Bonds

The Trust Estate. Under the Indenture, the Issuer will assign to the Bond Trustee, as security for the obligations secured by the Indenture, the Issuer’s rights in and to (1) the Prepaid Contract, (2) gas received thereunder, (3) the Resale Contract, (4) the Price Swap, (5) the Rate Swaps, (6) the Issuer’s agreements with the Administrator referred to herein, (7) the Investment Contract, (8) the ML Guarantor’s guarantees of payments under the Prepaid Contract and Rate Swaps, and (9) the money, instruments, securities, and other investments and obligations deposited with the Bond Trustee under the Indenture (collectively, the “*Trust Estate*”). See “Security for the Bonds—The Trust Estate” herein.

The Trust Estate will be held for the benefit and security of the following, in the following order of priority:

(1) **Senior Obligations:** all Holders of Outstanding Senior Lien Bonds, equally and proportionately to the extent of all amounts due and to become due to such Holders on such Senior Lien Bonds;

(2) **Junior Obligations:** the Price Swap Provider and the Rate Swap Provider, equally and proportionately to the extent of any amounts due or to become due to the Price Swap Provider pursuant to the Price Swap or the Rate Swap Provider pursuant to the Senior Rate Swap;

(3) **Mezzanine Obligations:** the Reserve Lenders referred to herein, if any, to the extent of all amounts due for principal of and interest on any Reserve Loan obtained to restore the balance of the Debt Service Reserve Fund to the Debt Service Reserve Requirement, the Price Swap Reserve Fund to the Price Swap Reserve Requirement, or the Senior Rate Swap Reserve Fund to the Senior Rate Swap Reserve Requirement, in accordance with the Indenture;

(4) **Subordinate Rate Swap:** the Rate Swap Provider to the extent of any amounts due or to become due to the Rate Swap Provider pursuant to the Subordinate Rate Swap; and

(5) **Subordinate Lien Obligations:** all Holders of Outstanding Subordinate Lien Bonds, equally and proportionately to the extent of all amounts due or to become due to such Holders on such Subordinate Lien Bonds,

except that the Price Swap Reserve Fund will secure payment of the Issuer’s obligations under the Price Swap, the Senior Rate Swap Reserve Fund will secure payment of the Issuer’s obligations under the Senior Rate Swap, and the Subordinate Rate Swap Reserve Fund will secure payment of the Issuer’s obligations under the Subordinate Rate Swap, before payment of its other obligations described above.

Debt Service Reserve Fund. The Indenture provides for a Debt Service Reserve Fund which will be funded initially in an amount equal to three times the maximum value (at the fixed price payable to the Issuer under the Price Swap) of gas to be received by the Issuer under the Prepaid Contract in any month, with proceeds of Subordinate Lien Bonds to be issued concurrently with the issuance of the Senior Lien Bonds. After each partial redemption of the Senior Lien Bonds, the Debt Service Reserve Requirement will reduce proportionately. The Debt Service Reserve Fund will be maintained as described herein and in the Indenture. Funds in the Debt Service Reserve Fund will be applied: (1) first, to pay budgeted (not to exceed initially budgeted) Senior Operating and Program Expenses, principal of and interest on the Senior Lien Bonds, and amounts required to be deposited in the Rebate Fund, but in each case only to the extent that insufficient funds are credited to the Revenue Fund and available for such purposes; and (2) second, whenever the Debt Service Reserve Requirement will reduce due to the partial redemption of Senior Lien Bonds, to pay the redemption price due on Subordinate Lien Bonds.

“*Senior Operating and Program Expenses*” include all budgeted operating expenses and program expenses included in the most recent Issuer Program Budget unless agreed by the payee to be Subordinated Expenses.

Reserve Loans. In the event that the balance of the Debt Service Reserve Fund, Price Swap Reserve Fund, or Senior Rate Swap Reserve Fund is less than the Debt Service Reserve Requirement, Price Swap Reserve Requirement, or Senior Rate Swap Reserve Requirement, respectively, on the first day of any month, the Issuer may borrow up to the amount of the deficiency on the terms described in the Indenture and deposit the proceeds of such borrowing to the applicable Reserve Fund, and, if MLCI offers to lend money for such purpose, the Issuer is required to borrow such amount from MLCI on such terms as and to the extent described herein, unless the Issuer borrows such amount from another Reserve Lender. Any such Reserve Loan will be payable solely from and to the extent of the Trust Estate and will be secured under the Indenture on a basis subordinate to the Senior Lien Bonds, the Price Swap, and the Senior Rate Swap. See “Security for the Bonds—Reserve Loans” and “The Transaction Contracts—The Prepaid Contract—Rights to Avoid Early Termination” herein. No person has committed or indicated its intent to make a Reserve Loan to the Issuer, if required to avoid the redemption of Senior Lien Bonds or otherwise.

Security for Pledged Contracts

The obligations of MuniGas under the Resale Contract will be secured under a Trust and Security Agreement, dated as of December 1, 2006 (the “*MuniGas Trust Agreement*”) between MuniGas and The Bank of New York Trust Company, N.A. (the “*MuniGas Trustee*”). The MuniGas Trust Agreement will also secure MuniGas’ obligations to various other parties under certain program documents (including the Exchange and Balancing Agreement and MuniGas’ agreements with the Administrator), all as further described herein. The lien on the trust estate created under the MuniGas Trust Agreement securing MuniGas’ obligations to the Issuer under the Resale Contract (1) is subordinate to the lien securing payment of Senior Operating and Program Expenses of MuniGas (“*MuniGas Senior Operating and Program Expenses*,” which includes fees and expenses payable to the Sponsor and the MuniGas Trustee and all other budgeted operating expenses and program expenses included in the most recent MuniGas Program Budget that are not agreed to be Subordinated Expenses, including senior fees and expenses payable to the Administrator, and (2) is on parity with the lien securing payment of MuniGas’ obligations under any other contract providing for the acquisition by MuniGas of natural gas for sale to Municipal Buyers. See “MuniGas Cooperative Gas Purchasing Program—The MuniGas Trust Agreement.”

Except as described above, all of the contracts pledged as security for the Senior Lien Bonds are unsecured general obligations of the counterparties.

Transaction Documents

Certain provisions of the Indenture, the Prepaid Contract, the Resale Contract, the Exchange and Balancing Agreement, the Rate Swaps, the Investment Contract, the Price Swap, the Cooperative Contract, and other related documents are summarized in this Official Statement, including Appendix A. The descriptions and summaries of such documents contained herein do not purport to be comprehensive and are qualified in their entirety by reference to each such document.

THE SENIOR LIEN BONDS

The following is a summary of certain provisions of the Senior Lien Bonds. Reference is hereby made to the Senior Lien Bonds and to the Indenture in their entirety for the detailed provisions thereof.

General

The Senior Lien Bonds of each series will mature on the dates and in the principal amounts set forth on the inside cover page hereof. The Senior Lien Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 and multiples thereof. While it acts as securities depository for the Senior Lien Bonds, all payments of principal of and interest on the Senior Lien Bonds will be made to Cede & Co., as nominee for The Depository Trust Company (“*DTC*”). See “Book-Entry System” below.

The Senior Lien Bonds will be transferable only in accordance with the provisions set forth under “Book-Entry System” herein.

Although the secondary market prices of the Index Rate Bonds may be less volatile than the secondary market prices of the Fixed Rate Bonds, the Index Rate Bonds are not expected to consistently trade at a price of par. There is no put

or demand feature with respect to the Index Rate Bonds, and there can be no assurance that the interest rate for the Index Rate Bonds during any three-month interest period will be a market rate throughout their term.

In addition, because the ratings on the Senior Lien Bonds are expected to be based primarily on the credit of Merrill Lynch & Co., Inc., any changes in the credit worthiness or credit rating of Merrill Lynch & Co., Inc. could affect secondary market prices for the Senior Lien Bonds. Secondary market prices for the Senior Lien Bonds could also be affected as a result of changes in the marginal federal income tax rate, general changes in interest rates and/or credit spreads and other supply and demand conditions affecting the Senior Lien Bonds.

Interest

The Senior Lien Bonds of each series will bear interest from the date of their initial delivery or from the most recent Interest Payment Date therefor to which interest thereon has been paid or duly provided for.

Series 2006A (Fixed Rate) Bonds. The Fixed Rate Bonds of each maturity will bear interest at the respective rates per annum set forth on the inside cover page hereof. Interest on the Fixed Rate Bonds will be payable on each June 15 and December 15, commencing June 15, 2007. Interest on the Fixed Rate Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Series 2006B (Index Rate) Bonds. The Index Rate Bonds of each maturity will bear interest for each interest period between interest payment dates at (a) 67% of the Three-Month LIBOR Rate for such period (or, in the case of the first interest period ending June 15, 2007, the linear interpolation between similarly determined three- and six-month LIBOR rates) plus (b) the per annum spread specified in the following table, except that the Index Rate Bonds may not bear interest in any interest period at more than the Maximum Rate (15% per annum).

Index Rate Term Bond due December 15,	Spread above Three-Month LIBOR Rate
2009	0.33%
2017	0.55%
2026	0.70%

Interest on the Index Rate Bonds will be payable on each March 15, June 15, September 15, and December 15, commencing on June 15, 2007. Interest on the Index Rate Bonds will be computed on the basis of a 365- or 366- day year, as applicable, for the actual number of days elapsed.

“*Three-Month LIBOR Rate*” for each interest period from and including the date of issuance of the Bonds or any Interest Payment Date for Index Rate Bonds to and excluding the next such Interest Payment Date means the rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers’ Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the day that is two London Banking Days preceding the first day of such period, except that, if such rate does not appear on such page, the “Three-Month LIBOR Rate” means a rate determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m. London time, on the day that is two London Banking Days preceding the first day of such period, to prime banks in the London interbank market by four major banks in the London interbank market (herein referred to as the “Reference Banks”) selected by Merrill Lynch Capital Services, Inc. or any successor Rate Swap Provider, as Calculation Agent. The Calculation Agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the Three-Month Libor Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the day that is two London Banking Days preceding the first day of such period for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity. If the banks in New York City selected by the Calculation Agent are not then quoting rates for such loans, then the “Three-Month LIBOR Rate” for the ensuing interest period will mean the Three-Month LIBOR rate in effect in the immediately preceding interest period.

Redemption of Senior Lien Bonds

The Senior Lien Bonds will be subject to optional redemption, mandatory sinking fund redemption and extraordinary mandatory redemption prior to maturity as described herein. **In the case of any extraordinary mandatory redemption in part of the Senior Lien Bonds of any maturity as described below, the Issuer will notify the Bond Trustee of the principal amount of such Senior Lien Bonds of each stated maturity to be redeemed and, if less than all of the Senior Lien Bonds with a stated maturity in (or with a stated maturity to be called for redemption as described under “Mandatory Sinking Fund Redemption” below in) any year are to be redeemed, the Bond Trustee must select Index Rate Bonds first, up to the amount of such Index Rate Bonds to be redeemed in such year, before selecting Fixed Rate Bonds of either such stated maturity for redemption.**

For purposes of the redemption prices described herein, the “*Amortized Value*” of any Fixed Rate Bond as of any Redemption Date means the principal amount of such Fixed Rate Bond multiplied by the price of such Fixed Rate Bond expressed as a percentage of principal amount, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of delivery of the Bonds), with a delivery date equal to such Redemption Date, a maturity date equal to the stated maturity of such Bond, and a yield equal to such Bond’s original reoffering yield specified on the inside cover page. For the Amortized Values of Fixed Rate Bonds of each maturity as of specified dates, see Appendix D.

Mandatory Sinking Fund Redemption. The Index Rate Bonds are subject to mandatory sinking fund redemption prior to maturity on the dates and in the principal amounts specified below, at a redemption price equal to 100% of the principal amount thereof:

Series 2006B (Index Rate) Bonds due December 15, 2009

<u>December 15,</u>	<u>Principal Amount</u>
2008	\$47,790,000
2009	\$68,270,000*

*Remaining due at final maturity.

Series 2006B (Index Rate) Bonds due December 15, 2017

<u>December 15,</u>	<u>Principal Amount</u>	<u>December 15,</u>	<u>Principal Amount</u>
2010	\$55,165,000	2014	\$72,425,000
2011	\$58,350,000	2015	\$78,310,000
2012	\$58,435,000	2016	\$83,880,000
2013	\$67,890,000	2017	\$85,395,000*

*Remaining due at final maturity.

Series 2006B (Index Rate) Bonds due December 15, 2026

<u>December 15,</u>	<u>Principal Amount</u>	<u>December 15,</u>	<u>Principal Amount</u>
2018	\$93,390,000	2023	\$139,295,000
2019	\$102,500,000	2024	\$149,700,000
2020	\$112,510,000	2025	\$159,070,000
2021	\$120,540,000	2026	\$168,520,000*
2022	\$129,940,000		

*Remaining due at final maturity.

The principal amount of Index Rate Bonds of such maturity required to be redeemed on any such date may be reduced (1) at the option of the Issuer by the principal amount of uncanceled Index Rate Bonds of the same maturity surrendered by the Issuer to the Bond Trustee for cancellation at least 45 days before the Redemption Date (provided that such Index Rate Bonds shall not have previously served as the basis for any such reduction) and (2) as described below under “Adjustments to Redemption and Debt Service Deposit Schedules” in the event of the partial redemption of the Index Rate Bonds of such maturity other than through mandatory sinking fund redemption.

Extraordinary Mandatory Redemption

In connection with each Extraordinary Mandatory Redemption described below, the Prepaid Contract will be terminated or reduced, and MLCI will be required to pay to the Bond Trustee for the account of the Issuer a termination payment in an amount which, together with any actual collections of proceeds of sale of supplemental gas deliveries then made by MLCI, has been calculated to be sufficient (together with deposits to the Senior Interest Account and Senior Principal Account or amounts in the Debt Service Reserve Fund) to pay the redemption price of the Senior Lien Bonds subject to such redemption, assuming performance of the Investment Contract and prior redemptions of Senior Lien Bonds pursuant to Mandatory Sinking Fund Redemption as scheduled. See “The Transaction Contracts—The Prepaid Contract” herein.

Early Termination Redemption. The Issuer must redeem the Bonds in whole, on the Business Day immediately succeeding any Early Termination Date designated by the Issuer or MLCI pursuant to the Prepaid Contract, at a Redemption Price equal to (1) the Amortized Value thereof as of such Redemption Date, in the case of Fixed Rate Bonds, and (2) 100% of the principal amount thereof, in the case of Index Rate Bonds or Subordinate Lien Bonds, plus interest accrued on such Index Rate Bonds and Subordinate Lien Bonds from the most recent Interest Payment Date therefor to which interest thereon has been paid or duly provided for. See “The Transaction Contracts—The Prepaid Contract.”

Remedial Action Redemption. The Issuer must redeem Senior Lien Bonds, at a Redemption Price equal to (1) the Amortized Value thereof on the Redemption Date, in the case of Fixed Rate Bonds, and (2) 100% of the principal amount thereof plus interest accrued thereon from the most recent Interest Payment Date therefor to which interest thereon has been paid or duly provided for, in the case of Index Rate Bonds, on the first Business Day of a month within 90 days after each date on which the Issuer no longer reasonably expects that at least 90% of the gas sold and delivered and to be sold and delivered to the Issuer pursuant to the Prepaid Contract throughout the term of the Prepaid Contract will be used for a Qualified Use, or that less than 5% or \$15,000,000 (valued at the fixed price payable to the Issuer under the Price Swap for the month of delivery) of such gas will be used for Private Business Use (unless, based on changed circumstances, the Issuer expects, at least six Business Days before the Redemption Date, that at least 90% of such gas will be so sold and delivered for Qualified Use and less than 5% or \$15,000,000, as so valued, of such gas will be used for Private Business Use), in the least aggregate principal amount that, in the Opinion of Counsel, would preserve the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes. Absent any such Opinion of Counsel or if the Issuer fails to deliver the accountant’s verification described herein under “Adjustments to Redemption and Debt Service Deposit Schedules”, the Senior Lien Bonds will be redeemed in whole on such Redemption Date. See also “The Transaction Contracts—The Prepaid Contract—Reductions in Deliveries.”

Reserve Deficiency Redemption. The Issuer must redeem Senior Lien Bonds, on the first Business Day of the third month after any application (or required application) of money in the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund that reduces (or, if made, would reduce) the balance thereof to less than 88.01% of the Debt Service Reserve Requirement, the Price Swap Reserve Requirement, or the Senior Rate Swap Reserve Requirement, respectively, at a Redemption Price equal to (1) the Amortized Value thereof as of such Redemption Date, in the case of Fixed Rate Bonds, and (2) in the case of the Index Rate Bonds, 100% of the principal amount of the Senior Lien Bonds to be redeemed plus interest, if any, accrued thereon from the most recent Interest Payment Date therefor to which interest thereon has been paid or duly provided for to the Redemption Date, in the smallest aggregate principal amount that will reduce the Debt Service Reserve Requirement, the Price Swap Reserve Requirement, and the Senior Rate Swap Reserve Requirement to or below the balance of the Debt Service Reserve Fund, the Price Swap Reserve Fund, and the Senior Rate Swap Reserve Fund, respectively, unless the Issuer increases such balances to or above such percentage of the Debt Service Reserve Requirement, the Price Swap Reserve Requirement, or the Senior Rate Swap Reserve Requirement, respectively, through the deposit of Revenue or the proceeds of a Reserve Loan at least six Business Days before the Redemption Date.

Reserve Reduction Redemption. The Issuer must redeem the Subordinate Lien Bonds in part, on each Redemption Date for Senior Lien Bonds described under “Remedial Action Redemption” or “Reserve Deficiency Redemption” above, in the greatest principal amount that does not exceed the sum of the reductions in the Debt Service Reserve Requirement, the Price Swap Reserve Requirement, the Senior Rate Swap Reserve Requirement and the Subordinate Rate Swap Reserve Requirement on such Redemption Date, at a Redemption Price equal to 100% of the principal amount thereof plus interest, if any, accrued thereon from the most recent Interest Payment Date therefor to which interest thereon has been paid or duly provided for to the Redemption Date.

Optional Redemption. Each optional redemption of Bonds described herein will be conditioned upon deposit by the Issuer with the Bond Trustee of sufficient funds to pay the Redemption Price (and, in the case of Index Rate Bonds or Subordinate Lien Bonds, any settlement amount payable by the Issuer under the applicable Rate Swap) and available for such purpose. The Bonds are subject to redemption at the option of the Issuer as follows:

Fixed Rate Bonds. The Issuer may redeem all or from time to time any part of the Fixed Rate Bonds on any date prior to their stated maturities, at a Redemption Price equal to the greater of (a) the Amortized Value thereof, or (b) the Market Yield Value thereof as of such Redemption Date. The “*Market Yield Value*” of any Fixed Rate Bonds as of any Redemption Date therefor means the sum of the present values of the remaining unpaid payments of principal and interest to be paid thereon from and including such Redemption Date to the stated maturity thereof, discounting to the Redemption Date semiannually at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate for such Fixed Rate Bond and Redemption Date minus 0.25% per annum.

“*Applicable Tax-Exempt Municipal Bond Rate*,” for any Fixed Rate Bond as of any Redemption Date therefor, means the “Comparable AAA General Obligations” yield curve rate for the stated maturity of such Bond as published by Municipal Market Data (available to its subscribers through its internet address: www.tm3.com) five business days prior to the date on which notice of such Redemption Date is first given to the Holder of such Bond. If no such yield curve rate is established for the applicable year, the “Composite AAA General Obligations” yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the “Applicable Tax-Exempt Municipal Bond Rate” for such Bond and Redemption Date will be interpolated or extrapolated from those yield curve rates on a straight-line basis. If Municipal Market Data no longer publishes the “Comparable AAA General Obligations” yield curve rate, then the “Applicable Tax-Exempt Municipal Bond Rate” for such Bond and Redemption Date will equal the Consensus Scale yield curve rate for the year made available on such fifth prior business day by Municipal Market Advisors (available to its subscribers through its internet address: www.theconsensus.com). If Municipal Market Data no longer publishes the “Comparable AAA General Obligations” yield curve rate and Municipal Market Advisors no longer publishes the Consensus Scale, the “Applicable Tax-Exempt Municipal Bond Rate” for such Bond and Redemption Date will be determined on such fifth prior business day by a major market maker in municipal securities selected by the Issuer, as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by S&P and Moody’s with a maturity date equal to the stated maturity of such Bond and having characteristics (other than the ratings) most comparable to those of such Bond in the judgment of the quotation agent. The quotation agent’s determination of the Applicable Tax-Exempt Municipal Bond Rate will be final and binding in the absence of manifest error.

Index Rate Bonds. The Issuer may redeem all or from time to time any part of the Index Rate Bonds of any stated maturity on any date prior to their stated maturity, at a Redemption Price equal to 100% of the principal amount thereof, together with the Spread Premium, if any, for the Index Rate Bonds of such stated maturity and such Redemption Date and interest, if any, accrued on such Index Rate Bonds from the most recent Interest Payment Date therefor to which interest thereon has been paid or duly provided for to the Redemption Date.

“*Spread Premium*” for any Index Rate Bonds or Subordinate Lien Bonds to be redeemed at the option of the Issuer as of any Redemption Date means the present value of the product of (a) the excess, if any, of (i) the per annum spread above the percentage of the Three-Month LIBOR Rate at which such Bond bears interest over (ii) 0.25% per annum, as summarized in the following table, and (b) the principal amount of such Bond, determined as if such product were payable quarterly from such Redemption Date to the maturity of such Bond, determined as if any such Index Rate Bonds were redeemed on the first mandatory sinking fund Redemption Date as of which 50% of the Index Rate Bonds of the same maturity then Outstanding will have been redeemed (the “*Median Maturity*”) but no such Bond were otherwise redeemed prior to maturity, discounting to the Redemption Date quarterly at a discount rate equal to (a) 67% of the USD-ISDA-Swap Rate (for the Designated Maturity which is closest to the Median Maturity, in the case of Index Rate Bonds, or the maturity thereof, in the case of Subordinate Lien Bonds) appearing on Reuters at 11:00 a.m. New York City time two U.S.

Government Securities Business Days prior to the first mailing of notice of such redemption, as all such terms are defined in the Senior Rate Swap, plus (b) 0.25% per annum.

Index Rate Bond due <u>December 15,</u>	Interest Rate <u>Spread</u>	Net Spread for Calculating <u>Redemption Premium</u>
2009	0.33%	0.08%
2017	0.55%	0.30%
2026	0.70%	0.45%

The Spread Premium will only be payable upon optional redemption of Index Rate Bonds or Subordinate Lien Bonds. No Spread Premium will be payable upon Extraordinary Mandatory Redemption or Mandatory Sinking Fund Redemption of Index Rate Bonds, Extraordinary Mandatory Redemption of Subordinate Lien Bonds, or any redemption of Fixed Rate Bonds.

“*USD-ISDA-Swap Rate*” for a designated maturity and date means the rate for U.S. dollar swaps of such maturity, expressed as a percentage, which appears on the Reuters Money 3000 Service on the page designated ISDAFIX1 (or such other page as may replace that page on such service for the purpose of displaying comparable rates) at 11:00 a.m., New York City time, on the day which is two U.S. Government Securities Business Days prior to such date. If such rate does not appear on such page on such day, then “*USD-ISDA-Swap Rate*” for such maturity and date shall mean the percentage determined on the basis of mid-market semiannual swap rate quotations provided by five leading swap dealers in the New York City interbank market at approximately such time on such day as the mean of the bid and offered rates for the semiannual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with an effective date of the relevant early termination date and a termination date equal to such maturity, in an amount that is representative for a single transaction in such market at such time, with an acknowledged dealer of good credit in such market, where the floating rate, calculated on the basis of a 360-day year for actual days elapsed, is equal to the London Interbank Offered Rate for loans with a three-month duration.

“*U.S. Government Securities Business Day*” means any day except for a Saturday, a Sunday, or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading U.S. government securities.

Subordinate Lien Bonds. The Issuer may redeem Subordinate Lien Bonds, in whole or from time to time in part, on any date prior to their stated maturity, at a Redemption Price equal to 100% of principal amount together with the Spread Premium (as defined above), if any, for such Subordinate Lien Bonds and Redemption Date and interest, if any, accrued thereon from the most recent Interest Payment Date therefor to which interest thereon has been paid or duly provided for to the Redemption Date. Any optional redemption of the Subordinate Lien Bonds is conditioned upon the deposit by the Issuer with the Bond Trustee of sufficient funds to pay the Redemption Price and available for such purpose under the Indenture.

Adjustments to Redemption and Debt Service Deposit Schedules. Within 20 days after each redemption of Bonds of any series and maturity as described above under “Optional Redemption,” “Remedial Action Redemption,” “Reserve Deficiency Redemption” or “Reserve Reduction Redemption,” the Issuer must deliver the following to the Bond Trustee:

- (1) **Senior Lien Adjustments:** in the case of redemption of Senior Lien Bonds, (a) a revised schedule of the aggregate principal amount of Senior Lien Bonds of such series and stated maturity, if any, to be redeemed on each succeeding December 15 as described under “Mandatory Sinking Fund Redemption” above, and (b) a statement of the resulting Debt Service Reserve Requirement, Price Swap Reserve Requirement, Senior Rate Swap Reserve Requirement, and Subordinate Rate Swap Reserve Requirement,
- (2) **Debt Service Deposit Adjustments:** a revised schedule of monthly deposits to the Senior Interest Account, Senior Principal Account, Subordinate Interest Account, and Subordinate Principal Account in respect of the Bonds of such series and stated maturity through the final stated maturity thereof, and in respect of the Senior Lien Bonds and Subordinate Lien Bonds, respectively, in total, and
- (3) **Verification:** both (a) a statement by an Accountant to the effect that it has reviewed the schedules and statements delivered to the Bond Trustee and verified that the same have been determined in

accordance with the provisions of the Indenture and (b) the Accountant's statement described herein under "The Transaction Contracts—The Prepaid Contract—Reduction in Deliveries."

Upon each redemption of Index Rate Bonds of any maturity, the Issuer must reduce the aggregate principal amount of Index Rate Bonds of such maturity to be redeemed on each succeeding December 15 as described under "Mandatory Sinking Fund Redemption" above by a combined reduction equal to the aggregate principal amount of Index Rate Bonds of such maturity so redeemed, allocating such reduction to each such December 15 either (a) in the case of any redemption described under "Remedial Action Redemption" above, in such amounts as will result in the least aggregate reduction in future deliveries of gas under the Prepaid Contract consistent with the Opinion of Counsel accompanying such redemption or (b) in the case of all other partial redemptions, as nearly in proportion to the respective amounts shown opposite the applicable year under such maturity under "Mandatory Sinking Fund Redemption" above (or the schedule most recently delivered to the Bond Trustee in substitution therefor), rounded to an authorized denomination for such Index Rate Bonds.

Upon each redemption of Bonds of any series and stated maturity as described under "Remedial Action Redemption", "Reserve Deficiency Redemption", "Optional Redemption," or "Reserve Reduction Redemption," the Issuer must (1) reduce the monthly sums specified in the Indenture (or the schedule most recently delivered to the Bond Trustee upon any prior such redemption) to be deposited to the Senior Principal Account and Subordinate Principal Account in respect of such series and stated maturity by an aggregate amount for each 12-month period ended November 30 equal to the amount by which the Amortized Value (in the case of Fixed Rate Bonds) or principal amount (in the case of all other Bonds) payable upon redemption in accordance with the provisions described under "Mandatory Sinking Fund Redemption" above on the succeeding December 15 is reduced on account of such redemption, allocating such total reduction to each such month in each 12-month period as nearly in proportion to the amounts previously specified as possible, (2) reduce the monthly sums specified in the Indenture (or the schedule most recently delivered to the Bond Trustee upon any prior such redemption) to be deposited to the Senior Interest Account or Subordinate Interest Account in respect of the Bonds of such series and stated maturity by a total amount for each 12-month period ended November 30 equal to the interest that would accrue on the Bonds of such series and maturity so redeemed in the 12-month period ending on the succeeding December 15 if such Bonds had not been redeemed (determined as if such Bonds were thereafter redeemed as described under "Mandatory Sinking Fund Redemption" above, to the extent applicable), allocating such total amount to each such month in proportion to the amounts previously specified as possible.

Redemption Procedures. Notice of each redemption of Bonds is required to be mailed not less than 30 days (except for redemptions described under "Early Termination Redemption" above) nor more than 60 days prior to the Redemption Date to each registered owner of Bonds to be redeemed at the address of such owner recorded in the bond register. If notice of redemption of any Bond is so given, such Bond will be due and payable on the Redemption Date (unless, in the cases of Bonds to be redeemed at the option of the Issuer, the Issuer revokes its option to redeem on or before such date or, in the case of Senior Lien Bonds to be redeemed as described above under "Remedial Action Redemption" or "Reserve Deficiency Redemption," to the extent that the cause for such redemption has been cured, in either case at least five Business Days before the Redemption Date) and, if funds sufficient and available to pay the redemption price therefor are deposited with the Bond Trustee on the Redemption Date and absent any such revocation or cure, will cease to bear interest after such date. While Bonds are registered in the name of DTC or its nominee, as nominee for the beneficial owners, the foregoing notice will be given to DTC or such nominee only, which shall alone be responsible for providing such notice to the beneficial owners. See "Book-Entry System" below.

If less than all of the outstanding Bonds of any series and stated maturity are to be redeemed, the particular Bonds of such series and stated maturity to be redeemed will be selected not more than 60 days prior to the Redemption Date by the Bond Trustee, by such method as the Bond Trustee deems fair and appropriate and which may provided for the selection for redemption of portions (in authorized denominations) of the principal of Bonds of such series and stated maturity of a denomination larger than the minimum authorized denomination for such Bond.

Book-Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as a securities depository for the Bonds. The Bonds will be issued as fully-registered in the name of Cede & Co., DTC or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds of each series and maturity in the aggregate principal amount of such series and maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Bank Law a "banking organization" within the meaning of the New York Banking law, a member of the Federal Reserve System, a

“clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct to Participant’s accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“*DTCC*”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Engineering Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, wither directly or indirectly (“*Indirect Participants*”). DTC has Standard and Poor’s highest rating, AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

Redemption notices will be sent to Cede & Co. If less than all of the Bonds of any series and maturity are being redeemed, DTC’s practice is to determine by lot the amount of the Interest of each Direct Participant in such series and maturity to be redeemed.

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

Redemption proceeds, distribution, and divided payments on the Bonds will be made in Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Issuer or Paying Agent, to believe that it will not receive payment on the payable date. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street names,” and will be the responsibility of such Participant and not of DTC, the Issuer, the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized

representative of DTC) is the responsibility of the Issuer or the Paying Agent, and disbursement of such payment to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered upon the surrender of Bonds by DTC for transfer.

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

THE ISSUER AND THE BOND TRUSTEE, SO LONG AS THE DTC BOOK-ENTRY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF PROPOSED AMENDMENT TO THE INDENTURE OR OTHER NOTICES WITH RESPECT TO SUCH BONDS ONLY TO DTC. ANY FAILURE BY DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNERS, OF ANY NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT ANY ACTION PREMISED ON ANY SUCH NOTICE. NEITHER THE BOND TRUSTEE NOR THE ISSUER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE BONDS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Neither the Issuer nor the Bond Trustee nor the Administrator will have any responsibility or obligation to the Participants or the Beneficial Owners of the Bonds with respect to (1) the accuracy of any records maintained by DTC or any Participant; (2) the payment by DTC or any Participant of any amount due to any Beneficial Owner in respect of the principal amount of, or interest, and premium, if any, on or redemption prices of the Bonds; (3) the delivery by DTC or any Participant of any notice to any Beneficial Owner that is required or permitted to be given to Holders under the terms of the Indenture; (4) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (5) any consent given or other action taken by DTC as owner of the Bonds. Neither the Issuer nor the Bond Trustee has any direct obligation or responsibility to Participants or Beneficial Owners. The Issuer and the Bond Trustee may treat DTC and Cede & Co. as the sole, exclusive and absolute Holders of the Bonds registered in its name for the purposes of payment of the principal of, interest on and redemption price of the Bonds, selecting the Bonds of each series and maturity to be redeemed, giving any notice permitted or required to be given to Bondholders under the Indenture (including, without limitation and notices of redemption), registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and all other purposes.

SECURITY FOR THE BONDS

Limited Recourse Obligations

The Bonds are limited recourse obligations of the Issuer. They are payable by the Issuer solely from the revenues and funds pledged and assigned to the Bond Trustee as part of the Trust Estate under the Indenture. No recourse for payment of the Bonds may be had against any other properties of the Issuer. The Issuer has no taxing power and neither has nor expects to have any assets available to pay the Bonds, except those to be pledged to payment of the Bonds as part of the Trust Estate. See "The Trust Estate" below.

The Bonds are obligations of the Issuer alone. Neither the State of Texas nor the City of La Grange, Texas, nor MuniGas, nor the Municipal Buyers, nor any other political subdivision or agency of the State of Texas will be obligated to pay the Bonds.

Lien of the Indenture

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

(1) **Contract Rights:** All rights, titles, interests, and estates of the Issuer in and to (a) the Prepaid Contract, (b) all contracts for the sale of the gas described in paragraph (2) below or received in exchange for such gas, including the Resale Contract, (c) the Rate Swaps and the Price Swap, (d) the Issuer's contracts with the Administrator, (e) the Investment Contract, and (f) all guaranties of the foregoing (including the ML Guaranties described herein), including in the case of all contracts described in this clause the right to all amounts payable to the Issuer thereunder, all proceeds thereof, any and all security heretofore or hereafter granted or held for the payment of amounts owing to the Issuer under such contracts or portions, and the present and continuing right to bring actions and proceedings under such contracts or portions, or for the enforcement thereof, and to do any and all things which the Issuer is or may become entitled to do thereunder;

(2) **Gas:** All rights, titles, and interests, owned or hereafter acquired, of the Issuer in and to all gas purchased under the Prepaid Contract;

(3) **Revenue and Proceeds:** All proceeds, revenues, and other income from or attributable to the property described in (1) and (2) above; and

(4) **Trusted Funds and Investments:** All rights, titles, interests, and estates of the Issuer in and to all money, instruments, securities, and other investments and obligations required to be deposited with the Bond Trustee pursuant to any provision of the Indenture.

Secured Obligations. The Trust Estate will be held for the benefit and security of the following, in the following order of priority:

(1) **Senior Obligations:** all Holders of Outstanding Senior Lien Bonds, equally and proportionately to the extent of all amounts due and to become due to such Holders on such Senior Lien Bonds;

(2) **Junior Obligations:** the Price Swap Provider and the Rate Swap Provider, equally and proportionately to the extent of any amounts due or to become due to the Price Swap Provider pursuant to the Price Swap or the Rate Swap Provider pursuant to the Senior Rate Swap;

(3) **Mezzanine Obligations:** the Reserve Lenders, if any, to the extent of all amounts due to the Reserve Lenders for principal of and interest on any Reserve Loan obtained by the Issuer to restore the balance of the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund to the Debt Service Reserve Requirement, Price Swap Reserve Requirement, or Senior Rate Swap Reserve Requirement, respectively, in accordance with the Indenture;

(4) **Subordinate Rate Swap:** the Rate Swap Provider, to the extent of any amounts due or to become due to the Rate Swap Provider pursuant to the Subordinate Rate Swap; and

(5) **Subordinate Lien Obligations:** all Holders of Outstanding Subordinate Lien Bonds, equally and proportionately to the extent of all amounts due or to become due to such Holders on such Subordinate Lien Bonds,

except that the Price Swap Reserve Fund, Senior Rate Swap Reserve Fund, and the Subordinate Rate Swap Reserve Fund will secure payment of the Issuer's obligations under the Price Swap, the Senior Rate Swap, and the Subordinate Rate Swap, respectively, before payment of its other obligations described above.

Debt Service Reserve Fund

The Indenture provides for a Debt Service Reserve Fund which will be funded in the amount of the Debt Service Reserve Requirement with a portion of the proceeds of the Subordinate Lien Bonds to be issued concurrently with the issuance of the Senior Lien Bonds. After each Redemption Date for the Senior Lien Bonds, the Debt Service Reserve Requirement will be reduced in proportion to the principal amount of Senior Lien Bonds then being redeemed (other than under the terms described under "Mandatory Sinking Fund Redemption" above). The Debt Service Reserve Fund will be maintained as described in the Indenture. Funds in the Debt Service Reserve Fund will be applied: (1) first, to pay Senior Operating and Program Expenses, principal of and interest on the Senior Lien Bonds, and amounts required to be deposited

in the Rebate Fund, but in each case only to the extent that insufficient funds are credited to the Revenue Fund and available for such purposes; (2) second, to pay the redemption price due on the Subordinate Lien Bonds, in the amount by which the Debt Service Reserve Fund balance exceeds the Debt Service Reserve Requirement following the partial redemption of the Senior Lien Bonds; and (3) third, to the extent of remaining balance above the Debt Service Reserve Requirement, to pay subordinate Program Expenses and Operating Expenses (if the Program Budget projects timely payment of debt service on all Bonds and Reserve Loans and the Issuer's obligations under the Price Swap and Rate Swaps) or transfer funds to the Revenue Fund.

Security for Pledged Contracts

The obligations of MuniGas under the Resale Contract will be secured under the MuniGas Trust Agreement. The MuniGas Trust Agreement will also secure payment of MuniGas' Senior Operating and Program Expenses and obligations to various other parties under certain program documents (including the Exchange and Balancing Agreement), all as further described herein. The lien on the trust estate created under the MuniGas Trust Agreement securing MuniGas' obligations to the Issuer under the Resale Contract: (1) is subordinate to the lien securing payment of MuniGas Senior Operating and Program Expenses (including non-subordinated fees and expenses payable to the Sponsor, the Administrator, and the MuniGas Trustee and amounts payable by MuniGas under the Exchange and Balancing Agreement); and (2) is on parity with the lien securing payment of MuniGas' obligations under any other contract providing for the acquisition of natural gas by MuniGas for sale to Municipal Buyers. See "MuniGas Cooperative Gas Purchasing Program—The MuniGas Trust Agreement" for more information relating to the MuniGas Trust Agreement.

Except as described above, all of the contracts pledged as security for the Senior Lien Bonds are unsecured general obligations of the counterparties.

Rate Covenant

Under the Indenture, the Issuer has agreed to review, on a monthly basis, the price discount at which gas is sold to MuniGas under the Resale Contract, and to reduce such price discount from time to time as and to the extent required to budget and receive sufficient revenues from the sale of gas purchased under the Prepaid Contract (other than upon termination of the Prepaid Contract in whole or part) to pay principal of and interest on the Bonds, and any Reserve Loans, and the net amounts payable by the Issuer under the Price Swap and the Rate Swaps when due, and to make all required deposits to the funds and accounts held under the Indenture, other than principal, payments, and deposits due on account of termination of the Prepaid Contract in whole or part. See also "MuniGas Cooperative Gas Purchasing Program—Financial Management—Rate Covenant" herein for a summary of the rate covenant of MuniGas under the MuniGas Trust Agreement.

If the Issuer proposes (and MuniGas does not agree) to reduce the price discount below MuniGas' Senior Operating and Program Expenses, including general and administrative expenses allocable to gas sold and delivered to it under the Resale Contract, then (1) the Issuer and MuniGas may agree to make sales and purchases at a greater discount, or (2) MuniGas may elect not to purchase gas from the Issuer. In the latter case, the Issuer may suspend deliveries to MuniGas and sell gas derived from the Prepaid Contract directly to municipal utilities and Texas state agencies or others, except as described under "The Transaction Contracts—The Resale Contract—Remedies and Default" herein. In the event of such election by MuniGas, the Issuer has entered into separate brokerage agreements with MLCI and with BP Energy Company, each extending for a term of three years (and thereafter if extended by agreement of the parties), to assist the Issuer in marketing the gas purchased by it under the Prepaid Contract to qualified Municipal Buyers. In addition, the Issuer will enter into an agreement (the "*Standby Purchase Agreement*") with BP Energy Company pursuant to which BP Energy Company will agree, in the event of suspension or termination of sales under the Resale Contract, to purchase any unsold gas from the Issuer at Henry Hub during the remaining term of the Exchange and Balancing Agreement, on the same terms and for a price equal to the credit afforded by BP Energy Company for deliveries of gas by MuniGas under the Exchange and Balancing Agreement.

Reserve Loans

In the event that the balance of the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund is less than the Debt Service Reserve Requirement, the Price Swap Reserve Requirement, or the Senior Rate Swap Reserve Requirement, respectively, on the first day of any month, the Issuer may borrow up to the amount of the deficiency on the terms described in the Indenture and deposit the proceeds of such borrowing to the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund, as applicable. Any such loan and the lender are referred to herein as a "*Reserve Loan*" and "*Reserve Lender*." The Issuer must borrow such amount from MLCI, if it elects

to make a Reserve Loan, for such purpose on terms provided in the Prepaid Contract, unless the Issuer borrows such amount from another Reserve Lender. No person has committed or stated its intention to make a Reserve Loan to the Issuer.

Each Reserve Loan will be payable on such terms as the Issuer may approve or are set forth in the Prepaid Contract, semiannually on each June 15 and December 15, in amounts which do not exceed the amounts estimated to be available to pay the same in the most recent program budget prepared pursuant to the Indenture, and must mature not later than December 15, 2026. Each Reserve Loan must be payable solely from and to the extent of the Trust Estate and will be secured under the Indenture on a basis subordinate to the Senior Lien Bonds, the Price Swap, and the Senior Rate Swap.

ESTIMATED SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of the proceeds of the Bonds:

Sources of Funds	Series 2006A	Series 2006B	Series 2006C	Total
	Fixed Rate Bonds	Index Rate Bonds	Subordinate Lien Bonds	
Principal Amount	\$ 485,000,000	\$ 1,851,375,000	\$ 81,620,000	\$ 2,417,995,000
Original Issue Premium	53,750,400	-	-	53,750,400
Total	\$ 538,750,400	\$ 1,851,375,000	\$ 81,620,000	\$ 2,471,745,400
Uses of Funds				
Prepayment for Prepaid Contract	\$ 524,370,032	\$ 1,795,068,846	\$ -	\$ 2,319,438,878
Deposit to Debt Service Reserve Fund	-	-	71,942,546	71,942,546
Deposits to Swap Reserve Funds ⁽¹⁾	-	-	9,423,000	9,423,000
Deposit to Startup Account of Revenue Fund ⁽²⁾	8,222,242	31,386,503	250,000	39,858,745
Underwriter's Discount	2,278,550	9,448,210	-	11,726,760
Costs of Issuance ⁽³⁾	3,879,576	15,471,441	4,454	19,355,471
Total	\$ 538,750,400	\$ 1,851,375,000	\$ 81,620,000	\$ 2,471,745,400

(1) Funding the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund and the Subordinate Rate Swap Reserve Fund in the amounts of \$7,000,000, \$2,320,000, and \$103,000 respectively.

(2) Includes capitalized interest on the Bonds from the date of issuance through May 15, 2007 and capitalized program and operating expenses through August 31, 2007, and \$250,000 of working capital to be deposited in the Surplus Account of the Revenue Fund.

(3) Includes legal fees, trustee fees, rating fees, and fees of the Sponsor and Administrator, and other costs of issuance.

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SCHEDULE 1: PRO FORMA DEBT SERVICE REQUIREMENTS

The following sets forth the pro forma debt service requirements on the Bonds, assuming interest on the Index Rate Bonds of 3.582%, 3.825% and 4.077% for the Index Rate Term Bonds due in the years 2009, 2017, and 2026, respectively, which are the fixed rates payable by the Issuer under the Senior Rate Swap, and interest on the Subordinate Lien Bonds of 4.846% per annum, which is the fixed rate payable by the Issuer under the Subordinate Rate Swap.

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SCHEDULE I: PROFORMA DEBT SERVICE REQUIREMENTS

12 Months Ended	Series 2006A Fixed Rate Bonds			Series 2006B Index Rate Bonds			Total Senior Lien Bonds			Series 2006C Subordinate Lien Bonds			Total Debt Service		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
12/15/07	\$ 10,000,000	\$ 24,652,778	\$ 34,652,778	\$ -	\$ 72,488,456	\$ 72,488,456	\$ 10,000,000	\$ 97,141,233	\$ 107,141,233	\$ -	\$ 3,901,123	\$ 3,901,123	\$ 10,000,000	\$ 76,389,579	\$ 111,042,356
12/15/08	-	24,500,000	24,500,000	\$ 47,790,000	73,495,240	121,285,240	47,790,000	97,995,240	145,785,240	-	3,955,305	3,955,305	47,790,000	77,450,545	149,740,545
12/15/09	-	24,500,000	24,500,000	68,270,000	71,783,402	140,053,402	68,270,000	96,283,402	164,553,402	-	3,955,305	3,955,305	68,270,000	75,738,707	168,508,707
12/15/10	25,000,000	24,500,000	49,500,000	55,165,000	69,337,971	124,502,971	80,165,000	93,837,971	174,002,971	-	3,955,305	3,955,305	80,165,000	73,293,276	177,958,276
12/15/11	25,000,000	23,250,000	48,250,000	58,350,000	67,227,909	125,577,909	83,350,000	90,477,909	173,827,909	-	3,955,305	3,955,305	83,350,000	71,183,214	177,783,214
12/15/12	25,000,000	22,000,000	47,000,000	58,435,000	64,996,022	123,431,022	83,435,000	86,996,022	170,431,022	-	3,955,305	3,955,305	83,435,000	68,951,327	174,386,327
12/15/13	25,000,000	20,750,000	45,750,000	67,890,000	62,760,883	130,650,883	92,890,000	83,510,883	176,400,883	-	3,955,305	3,955,305	92,890,000	66,716,188	180,356,188
12/15/14	25,000,000	19,500,000	44,500,000	72,425,000	60,164,091	132,589,091	97,425,000	79,664,091	177,089,091	-	3,955,305	3,955,305	97,425,000	64,119,396	181,044,396
12/15/15	25,000,000	18,250,000	43,250,000	78,310,000	57,393,834	135,703,834	103,310,000	75,643,834	178,953,834	-	3,955,305	3,955,305	103,310,000	61,349,139	182,909,139
12/15/16	25,000,000	17,000,000	42,000,000	83,880,000	54,398,477	138,278,477	108,880,000	71,398,477	180,278,477	-	3,955,305	3,955,305	108,880,000	58,353,782	184,233,782
12/15/17	30,000,000	15,750,000	45,750,000	85,395,000	51,190,067	136,585,067	115,395,000	66,940,067	182,335,067	-	3,955,305	3,955,305	115,395,000	55,145,372	186,290,372
12/15/18	30,000,000	14,175,000	44,175,000	93,390,000	47,923,708	141,313,708	123,390,000	62,098,708	185,488,708	-	3,955,305	3,955,305	123,390,000	51,879,013	189,444,013
12/15/19	30,000,000	12,600,000	42,600,000	102,500,000	44,116,198	146,616,198	132,500,000	56,716,198	189,216,198	-	3,955,305	3,955,305	132,500,000	48,071,503	193,171,503
12/15/20	30,000,000	11,025,000	41,025,000	112,510,000	39,937,273	152,447,273	142,510,000	50,962,273	193,472,273	-	3,955,305	3,955,305	142,510,000	45,892,578	197,427,578
12/15/21	30,000,000	9,450,000	39,450,000	120,540,000	35,350,240	155,890,240	150,540,000	44,800,240	195,340,240	-	3,955,305	3,955,305	150,540,000	39,305,545	199,295,545
12/15/22	30,000,000	7,875,000	37,875,000	129,940,000	30,435,824	160,375,824	159,940,000	38,310,824	198,250,824	-	3,955,305	3,955,305	159,940,000	34,391,129	202,206,129
12/15/23	30,000,000	6,300,000	36,300,000	139,295,000	25,138,170	164,433,170	169,295,000	31,438,170	200,733,170	-	3,955,305	3,955,305	169,295,000	29,093,476	204,688,476
12/15/24	30,000,000	4,725,000	34,725,000	149,700,000	19,459,113	169,159,113	179,700,000	24,184,113	203,884,113	-	3,955,305	3,955,305	179,700,000	23,414,419	207,839,419
12/15/25	30,000,000	3,150,000	33,150,000	159,070,000	13,355,844	172,425,844	189,070,000	16,505,844	205,575,844	-	3,955,305	3,955,305	189,070,000	17,311,150	209,531,150
12/15/26	30,000,000	1,575,000	31,575,000	168,520,000	6,870,560	175,390,560	198,520,000	8,445,560	206,965,560	\$ 81,620,000	3,955,305	85,575,305	280,140,000	10,825,866	292,540,866
TOTALS	\$ 485,000,000	\$ 305,527,778	\$ 790,527,778	\$ 1,851,375,000	\$ 967,823,281	\$ 2,819,198,281	\$ 2,336,375,000	\$ 1,273,351,059	\$ 3,609,726,059	\$ 81,620,000	\$ 79,051,922	\$ 160,671,922	\$ 2,417,995,000	\$ 1,046,875,203	\$ 3,370,397,981

PRO FORMA REVENUES, EXPENSES AND DEBT SERVICE COVERAGE

The following schedule has been prepared by Municipal Energy Resources Partners, Ltd. (the “*Administrator*”), to reflect pro forma revenues, expenses, resulting net cash flows available to pay debt service, and the resulting debt service coverage ratios. The schedule has been prepared based on the following assumptions, which the Issuer believes to be reasonable.

General Assumptions	All gas purchased under the Prepaid Contract or received in exchange therefor under the Exchange and Balancing Agreement is sold to Municipal Buyers for Qualified Use so that no Senior Lien Bonds are redeemed as described under “The Senior Lien Bonds – Redemption of Senior Lien Bonds – Remedial Action Redemption”. All Municipal Buyers will remit payment for gas purchases to the MuniGas Trustee by the 25 th day of the month following the month of physical delivery. Cash payments for gas deliveries are made by MuniGas to the Issuer when due on the last business day of the month following the month of physical delivery. The Price Swap Provider, the Rate Swap Provider, the Exchanger/Balancer, the obligor on the Investment Contract, and MLCI timely perform their respective obligations under transaction agreements.
Interest Income	The Debt Service Reserve Fund, the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund, and the senior and subordinate interest and principal accounts are invested under the Investment Contract at the contracted rates of 4.855% for the three reserve funds, and 4.651%, 4.731%, 4.791%, and 4.40% for the various interest and principal accounts, to the final maturity of the Bonds. Other accounts not invested under the Investment Contract are assumed to earn 2% per annum.
Operating and Program Expenses	<p>The Issuer’s and MuniGas’ Gas Management Agreements with the Administrator are extended beyond their initial 3-year term with fees escalated (beginning in 2009) at 3%/yr, and MuniGas’ Exchange and Balancing Agreement is extended beyond its initial 3-year term on its initial terms.</p> <p>Senior Operating and Program Expenses accrue at contract rates or, if not fixed by contract, escalate (beginning in 2009) at 3%/yr.</p>
Bond Debt Service Requirements	Interest on the Index Rate Bonds, net of Senior Rate Swap payments and receipts, is assumed to accrue at rates of 3.582%, 3.825% and 4.077% for the Index Rate Term Bonds due in the years 2009, 2017, and 2026, respectively, which are the fixed rates payable by the Issuer under the Senior Rate Swap, and interest on the Subordinate Lien Bonds, net of Subordinate Rate Swap payments and receipts, is assumed to accrue at a rate of 4.846% per annum, which is the fixed rate payable by the Issuer under the Subordinate Rate Swap, to the final maturity of the Bonds.

If any of these assumptions proves to be unfounded or if unexpected events or conditions reduce revenues or increase cash expenses, the actual results could vary from those contained in the following schedules and the variances could be material. The pro forma amounts contained in the schedule have not been prepared in conformance with generally accepted accounting principles. The pro forma amounts are designed to illustrate pro forma cash available for bond debt service and resulting debt service coverage ratios. For a description of substantial factors that could affect whether the pro forma results will be achieved, see “Investment Considerations” herein.

SCHEDULE 2: PRO FORMA ESTIMATED REVENUES AND DISBURSEMENTS

Cash Flow Period Ending	Revenues			Debt Service Requirements and Coverage						Revenue Available for MuniGas Discounts and Rebates ⁽⁶⁾				
	Value of Deliveries Before Discounts ⁽²⁾	Transfers from Start Up Account & Reserves ⁽⁵⁾	Interest Income ⁽⁴⁾	Combined Issuer and MuniGas Revenue	Senior Operating and Program Expense ⁽³⁾	Net Revenue Available for Debt Service	Senior Debt Service Requirements	Senior DSCR ⁽⁶⁾	Subordinate Debt Service Requirements		Combined Debt Service Requirements	Combined DSCR ⁽⁶⁾	Issuer Subordinate Operating and Program Expenses ⁽⁷⁾	Surplus Account Balance ⁽⁸⁾
12/15/07	\$ 83,163,568	\$ 39,608,745	\$ 4,273,517	\$ 127,045,830	\$ (2,837,971)	\$ 124,207,859	\$ (107,141,233)	1.159x	\$ (3,901,123)	\$ (111,042,356)	1.119x	\$ (4,607,618)	\$ 250,000	\$ 4,215,715
12/15/08	159,201,926	-	5,173,453	164,375,379	(3,202,162)	161,173,217	(145,785,240)	1.106x	(3,955,305)	(149,740,545)	1.076x	(900,000)	250,000	8,646,885
12/15/09	172,375,660	-	5,960,772	178,336,432	(3,415,559)	174,920,873	(164,553,402)	1.038x	(3,955,305)	(168,508,707)	1.038x	(937,500)	250,000	4,141,252
12/15/10	183,104,256	-	6,166,199	189,270,455	(3,636,986)	185,633,469	(174,002,971)	1.067x	(3,955,305)	(177,958,276)	1.043x	(983,625)	250,000	5,227,050
12/15/11	184,436,578	-	6,287,273	190,723,851	(3,809,810)	186,914,041	(173,827,909)	1.075x	(3,955,305)	(177,783,214)	1.051x	(1,031,134)	250,000	6,523,164
12/15/12	182,226,243	-	6,280,863	188,507,106	(3,879,660)	184,627,445	(170,431,022)	1.083x	(3,955,305)	(174,386,327)	1.059x	(1,080,068)	250,000	7,492,270
12/15/13	185,204,770	-	6,400,580	191,605,351	(3,999,805)	187,605,545	(176,400,883)	1.064x	(3,955,305)	(180,356,188)	1.040x	(1,130,470)	250,000	4,354,851
12/15/14	188,040,194	-	6,528,241	194,568,435	(4,032,124)	190,536,312	(177,089,091)	1.076x	(3,955,305)	(181,044,396)	1.052x	(1,182,384)	250,000	6,456,585
12/15/15	189,950,898	-	6,629,930	196,580,828	(4,032,951)	192,547,877	(178,933,834)	1.076x	(3,955,305)	(182,909,139)	1.053x	(1,235,855)	250,000	6,465,419
12/15/16	191,649,916	-	6,739,483	198,389,399	(4,016,848)	194,372,551	(180,278,477)	1.078x	(3,955,305)	(184,233,782)	1.055x	(1,290,931)	250,000	6,820,774
12/15/17	193,696,565	-	6,847,989	200,544,555	(4,000,614)	196,543,941	(182,335,067)	1.078x	(3,955,305)	(186,290,372)	1.055x	(1,347,659)	250,000	6,791,731
12/15/18	197,061,593	-	7,001,512	204,063,105	(4,008,424)	200,054,681	(185,488,708)	1.079x	(3,955,305)	(189,444,013)	1.056x	(1,406,089)	250,000	6,998,047
12/15/19	201,030,097	-	7,179,711	208,209,808	(4,070,068)	204,139,741	(189,216,198)	1.079x	(3,955,305)	(193,171,503)	1.057x	(1,466,271)	250,000	7,200,311
12/15/20	205,594,578	-	7,379,612	212,974,191	(4,086,249)	208,887,942	(193,472,273)	1.080x	(3,955,305)	(197,427,578)	1.058x	(1,528,260)	250,000	7,529,455
12/15/21	207,812,447	-	7,535,697	215,348,143	(4,023,207)	211,324,937	(195,340,240)	1.082x	(3,955,305)	(199,295,545)	1.060x	(1,592,107)	250,000	7,934,734
12/15/22	210,944,928	-	7,714,803	218,659,731	(4,048,397)	214,611,335	(198,250,824)	1.083x	(3,955,305)	(202,206,129)	1.061x	(1,657,871)	250,000	8,142,840
12/15/23	213,736,489	-	7,895,591	221,632,080	(4,051,130)	217,580,950	(200,733,170)	1.084x	(3,955,305)	(204,688,476)	1.063x	(1,725,607)	250,000	8,453,310
12/15/24	217,176,245	-	8,095,819	225,272,064	(4,115,631)	221,156,432	(203,884,113)	1.085x	(3,955,305)	(207,839,419)	1.064x	(1,795,375)	250,000	8,696,265
12/15/25	219,123,011	-	8,269,093	227,392,104	(4,123,660)	223,268,444	(205,575,844)	1.086x	(3,955,305)	(209,531,150)	1.066x	(1,867,236)	250,000	8,934,643
12/15/26	221,816,272	81,865,546	8,975,958	312,657,776	(4,127,233)	308,530,543	(206,965,560)	1.491x	(85,575,305)	(292,540,866)	1.055x	(1,941,253)	-	11,000,472
TOTAL	\$ 3,807,346,235	\$ 121,474,291	\$ 1,137,336,098	\$ 4,066,156,624	\$ (77,515,488)	\$ 3,988,641,136	\$ (3,609,726,059)		\$ (160,671,922)	\$ (3,770,397,981)		\$ (30,707,312)		\$ 142,029,774

Notes:

- For each cash flow period ending 12/15, this schedule is based on gas deliveries for 12 months through October 31, related receipts and disbursements for 12 months through November 30, including deposits for debt service for 12 months through December 15. The schedule reflects estimated combined Issuer and MuniGas revenues and expenses associated with the gas to be purchased under the Prepaid Contract, except as noted.
- Value of Deliveries Before Discounts is the sum, for each month in the relevant 12-month period, of the product of gas scheduled to be delivered to Issuer and MuniGas at Henry Hub times the fixed price receivable by the Issuer for that month under the Price Swap.
- Startup Account includes an amount equal to senior and subordinate Operating Expenses and Program Expenses from the date of issuance through August 31, 2007 plus principal and interest on the Bonds to May 15, 2007.
- Interest Income includes interest earned on funds held by the Issuer.
- Combined Senior Operating and Program Expenses include fixed (per MMBtu) gas charges payable to the Administrator, fixed (per MMBtu) gas delivery charges payable to the Sponsor, and other expenses projected assuming escalation factors (beginning in 2009 at 3%/yr) for legal, accounting, and other expenses not fixed by contract. 24.3% of the expenses included herein are due the Administrator and Exchanger / Balancer assuming continued renewals of their respective Gas Management and Exchange and Balancing Agreements that are limited to 3-year terms.
- Debt service coverage ratios (DSCR) are computed by dividing Net Revenue Available for Debt Service (net of combined Senior Operating and Program Expenses) for the period, by the Senior and Combined Debt Service Requirements for Senior DSCR and Combined DSCR, respectively, for the period.
- Issuer Subordinate Operating and Program Expenses includes deferred / subordinate expenses payable to the Administrator related to upfront structuring / development services through 12/31/2007. Ongoing subordinate expenses include the subordinate portions of fees due to the Administrator.
- Issuer Surplus Account Balance will be initially funded with \$250,000 from Bond proceeds and is available to cover unanticipated Issuer expenses.
- Revenue Available for MuniGas Discounts and Rebates are MuniGas revenues, net of its senior and subordinate expenses, projected to be available for discounts and rebates to Municipal Buyers. The amounts in this schedule were projected net of subordinate MuniGas expenses payable to the Administrator. These ongoing subordinate expenses are equal to 22.4% of the sum of these subordinate expenses plus the MuniGas Revenue Available for Discounts and Rebates. 38.7% of these ongoing subordinate expenses are due the Administrator assuming continued renewals on terms of the Gas Management Agreement that is limited to 3-year terms.

THE ISSUER AND MUNIGAS

The Texas Municipal Gas Acquisition and Supply Corporation I (the Issuer) and Municipal Gas Acquisition and Supply Corporation (MuniGas) are Texas public facility corporations incorporated in 2005 and 2004, respectively, pursuant to the Act with the approval of the Sponsor for the purpose of financing the acquisition of natural gas to serve a portion of the natural gas requirements of local governments and Texas state agencies.

Since 2001, another Texas public facility corporation created with approval of the Sponsor, Texas Municipal Gas Corporation (TMGC I), has been supplying gas (produced from previously acquired natural gas production payments and a natural gas royalty) under a joint gas purchasing program to Texas municipal gas and electric utilities at a price discount from prevailing market prices for natural gas. In order to continue TMGC I's program on more efficient and flexible terms, the Issuer was created to acquire additional supplies of natural gas, and MuniGas was organized to transport or exchange and market natural gas supplies to municipalities, other local governments, and Texas state agencies.

Under the Act, the Sponsor appoints and may remove the Issuer's and MuniGas' directors, with or without cause, and in its sole discretion, may alter their structure, organization, programs, and activities at any time, subject to legal limitations on the impairment of contracts. No bonds, notes, or other debt instruments may be issued by either entity without the approval of the Sponsor. However, the Sponsor is not obligated on or authorized to pay the Bonds or any other obligations of the Issuer or MuniGas and has no responsibility for the management of the Issuer's or MuniGas' affairs.

Under the Issuer's restated articles of incorporation, while any Bonds or other obligation secured by the Indenture remains outstanding, the Issuer (1) may so assist the Sponsor only by acquiring, owning, operating, maintaining, selling, transferring, and assigning hydrocarbons, leasehold or other interests therein, and similar property constituting part of the Trust Estate under the Indenture or another indenture securing bonds issued for such purposes, and engaging in incidental activities, (2) may not incur or guaranty any obligations except indebtedness permitted by one of such indentures, and (3) may not merge, consolidate, or transfer substantially all of its assets except to an entity with similar charter restrictions that has assumed the Issuer's obligations under such indentures. In the Indenture, the Issuer has agreed not to engage in any business or activity other than purchasing mineral interests, natural gas and other hydrocarbons for the purpose of selling and delivering natural gas to public agencies, municipalities, and political subdivisions and activities incidental to such purposes.

Under MuniGas' restated articles of incorporation, while any obligation issued to acquire natural gas remains outstanding, MuniGas (1) may so assist the Sponsor only by acquiring, owning, operating, maintaining, selling, transferring, and assigning hydrocarbons, leasehold or other interests therein, and similar property and engaging in incidental activities, (2) may not incur or guaranty any obligations except indebtedness permitted by a trust agreement or other contract securing indebtedness previously issued for one of such purposes, and (3) may not merge, consolidate, or transfer substantially all of its assets except to an entity with similar charter restrictions that has assumed MuniGas' obligations under such trust agreement or contract. In the MuniGas Trust Agreement, MuniGas has agreed not to engage in any business or activity other than purchasing mineral interests and program gas for the purpose of selling and delivering natural gas to governmental agencies, municipalities, and political subdivisions and activities incidental to such purposes.

The Issuer is governed by a board of at least three directors. The offices, occupations, and terms of office of current directors of the Issuer are as follows:

Issuer Board of Directors

<u>Director</u>	<u>Office</u>	<u>Occupation</u>	<u>Director Term Ends</u>
Mary Voss	President	Oil and Gas Landman	August 15, 2011
Janet Moerbe	Vice President	Teacher and Mayor, City of La Grange, Texas	August 15, 2007
Glen Pape	Vice President	Insurance Agent	August 15, 2009
Harvey Busch	Secretary	Retired Civil Engineer and City Councilman, City of La Grange, Texas	August 15, 2012

MuniGas is governed by a board of at least three directors. The offices, occupations, and terms of office of current directors of MuniGas are as follows:

MuniGas Board of Directors

<u>Director</u>	<u>Office</u>	<u>Occupation</u>	<u>Director Term Ends</u>
Glen Pape	President	Insurance Agent	June 15, 2008
Harvey Busch	Vice President	Retired Civil Engineer and City Councilman, City of La Grange, Texas	June 15, 2010
Janet Moerbe	Vice President	Teacher and Mayor, City of La Grange, Texas	June 15, 2012
Janetta Morris	Secretary	Business Owner	June 15, 2012

Under Texas law, the directors of the Issuer and MuniGas, upon expiration of their terms of office, continue to serve on the board of directors of the Issuer until reappointment or until a successor director is appointed and is qualified.

Each of the Issuer and MuniGas has engaged Municipal Energy Resources Partners, Ltd. (the Administrator), acting through its general partner, Municipal Energy Resources Corporation, to manage and administer its cooperative gas purchasing program. TMGC I has engaged the Administrator for the same purpose since 1998. See “MuniGas Cooperative Gas Purchasing Program—Program Administration and Management.” Neither the Issuer nor MuniGas has any employees or assets in addition to those described herein. The president of the Administrator’s general partner serves as Executive Director of the Issuer, MuniGas and TMGC I. See “MuniGas Cooperative Gas Purchasing Program—Program Administration and Management—Program Administration and Gas Management Agreements” for information relating to the Administrator’s responsibilities and fees.

THE TRANSACTION CONTRACTS

Principal terms of the overall transaction and certain contracts relating to the Bonds are summarized below. As a result of the terms of such contracts and other contracts described under “MuniGas Cooperative Gas Purchasing Program” herein, the Issuer expects to receive dependable monthly net revenues, regardless of changes in gas prices or interest rates. Such monthly revenues are expected to be adequate to pay debt service requirements on the Bonds and other program expenses when due and to produce an operating margin that is intended to be passed through to MuniGas and then to the Municipal Buyers in the form of monthly price discounts and later patronage rebates. For a discussion of certain potential risks and investment considerations, see “Investment Considerations” herein.

Overview of Transaction Contracts

On the date of issuance of the Senior Lien Bonds, the Issuer will use a portion of the proceeds thereof to finance prepayment in full of the purchase price for an approximately 20-year supply of natural gas to be purchased by it from MLCI under the Prepaid Contract. Under the Prepaid Contract, MLCI will be obligated to deliver specified monthly quantities of gas to the Issuer at Henry Hub, to make index-based payments for any gas not delivered, and to make a termination payment (or guaranty timely collection of a like amount from the sale of supplemental gas deliveries from MLCI to the Issuer) upon any early termination of the Prepaid Contract in whole or in part. The total quantity of gas to be delivered by MLCI over the term of the Prepaid Contract is 500,011,000 MMBtus. The annual quantities of gas to be delivered under the Prepaid Contract total 12,840,000 MMBtus in 2007 and increase annually through 2013, then total approximately 26,900,000 MMBtus per year for the balance of the contract term. Annual quantities are allocated among months in proportion to expected seasonality of demand. See Appendix C hereof for a schedule of the annual quantities of gas to be delivered by MLCI under the Prepaid Contract. The payment obligations of MLCI under the Prepaid Contract are unconditionally guaranteed by the ML Guarantor.

Pursuant to the Resale Contract, the Issuer has agreed to sell all of the gas it acquires under the Prepaid Contract (other than supplemental deliveries upon termination of the Prepaid Contract in whole or part) to MuniGas at Henry Hub at a variable price discount from an indexed based price, such discount to be determined by the Issuer on a monthly basis and intended to be the maximum discount that nevertheless will enable the Issuer to receive sufficient revenue to pay debt service on the Bonds and expenses of the Issuer and to maintain required cash reserves.

Under the Exchange and Balancing Agreement, the Exchanger/Balancer will, for fixed compensation per MMBtu payable by MuniGas, (a) exchange the gas acquired by MuniGas at Henry Hub for an equal value of gas to be delivered by the Exchanger/Balancer to MuniGas at the Municipal Buyers' respective receipt points (with the gas delivered by MuniGas at Henry Hub to be valued at the FOM Index for Henry Hub referred to herein for the month of delivery less a small index differential per MMBtu), (b) deliver to or receive from MuniGas a cash deposit to secure any imbalance between the value of scheduled monthly deliveries at Henry Hub and the value of monthly deliveries to Municipal Buyers, until the imbalance is reversed by deliveries in a future month; and (c) purchase from MuniGas, at the value credited by the Exchanger/Balancer in the month of receipt at Henry Hub, any surplus gas that is not exchanged for gas sold to Municipal Buyers within 24 months, in each case for so long as the Exchange and Balancing Agreement is extended by agreement of the parties thereto or replaced on the same terms after its initial 3-year term.

Under the Cooperative Contract and contracts with Spot Buyers, MuniGas will sell the gas received from the Exchanger/Balancer to Municipal Buyers at the Municipal Buyers' receipt points at a variable price discount from the value of such gas at such points.

The value of the gas sold by the Issuer to MuniGas at Henry Hub will be hedged by the Price Swap, under terms that are expected to enable the Issuer to receive a revenue stream from the sale of such gas to MuniGas that is substantially fixed for the life of the Prepaid Contract. In addition, the Issuer will enter into the Senior Rate Swap and the Subordinate Rate Swap in order to hedge its net expense associated with the Index Rate Bonds and the Subordinate Lien Bonds, respectively, and achieve synthetic fixed rate obligations. The Rate Swap Provider's payment obligations under the Rate Swaps will be guaranteed by Merrill Lynch & Co., Inc.

In the event that either (a) the price discount under the Resale Contract set by the Issuer from time to time is less than MuniGas' senior expenses and MuniGas elects not to purchase from the Issuer all of the gas acquired by the Issuer under the Prepaid Contract or (b) the Issuer suspends or terminates the Resale Contract in accordance with its terms, (i) the Issuer may sell gas directly to Municipal Buyers through separate three-year brokerage agreements with MLCI and BP Energy Company, (ii) in that case, to facilitate such sales, MLCI may deliver equal values of gas at alternate delivery points for which an FOM Index is published, rather than delivering scheduled quantities at Henry Hub; and (iii) if gas remains unsold, the Issuer will sell such gas under the Standby Purchase Agreement pursuant to which BP Energy Company will agree to purchase any unsold gas from the Issuer at Henry Hub, during the remaining term of the Exchange and Balancing Agreement, on the same terms and for a price equal to the credit afforded by BP Energy Company for deliveries of gas by MuniGas under the Exchange and Balancing Agreement.

In order to hedge its exposure under the Prepaid Contract, MLCI has also entered into the Seller Price Swap with BP Corporation North America Inc. Under the Seller Price Swap, MLCI would pay a fixed gas price, and BP Corporation North America Inc. would pay a floating index gas price based on the FOM Index at Henry Hub, in each case multiplied by the quantities of gas scheduled to be delivered under the Prepaid Contract.

The Prepaid Contract

On the date of issuance of the Senior Lien Bonds, the Issuer will use a portion of the proceeds thereof to prepay in full the purchase price for an approximately 20-year supply of natural gas to be purchased by it from MLCI under the Prepaid Contract. Under the Prepaid Contract, MLCI is obligated to deliver specified monthly quantities of gas to the Issuer at Henry Hub (or equal values at alternate delivery points as described herein), to make index-based payments for any gas not delivered (whether or not delivery is excused), and to make a termination payment to the Issuer (or guaranty timely collection by the Issuer of a like amount from the sale of supplemental gas deliveries from MLCI) upon any early termination of the Prepaid Contract in whole or in part. The payment obligations of MLCI under the Prepaid Contract will be unconditionally guaranteed by the ML Guarantor.

Deliveries and Payments. Under the Prepaid Contract, MLCI is obligated to sell and deliver to the Issuer, and the Issuer is obligated to purchase and receive from MLCI, on a firm basis at Henry Hub, monthly quantities of natural gas scheduled in the Prepaid Contract (totaling the annual quantities set forth in Appendix C), as such scheduled quantities may be reduced following each Reduction Event as described below. In full consideration of these gas purchases, the Issuer will make a single up-front payment to MLCI on the date of delivery of the Bonds in the amount stated herein under "Estimated Sources and Uses of Funds." During the suspension or after termination of sales of gas under the Resale Contract and, for

any supplemental gas delivered after notice of designation of a Reduction Date or an Early Termination Date, MLCI may deliver equal values of gas to the Issuer at alternate delivery points for which an FOM Index is published (valued at the FOM Index for the applicable delivery point) in order to facilitate direct sales of gas by the Issuer. Under the Prepaid Contract, if MLCI fails to deliver or, except as described under “Damages for Underreceipts” below, the Issuer fails to receive any quantity of gas required to be delivered at Henry Hub or an alternate delivery point in any month (other than supplemental gas delivered upon termination of the Prepaid Contract in whole or in part), for any reason (including default by either party), MLCI must pay to the Issuer the product of such quantity and the FOM Index for such month and delivery point, not later than the 25th day of the immediately succeeding month.

The “*FOM Index*” for gas sold and delivered under the Prepaid Contract at any delivery point in any month means (1) the price listed for such delivery point in the first edition in such month of Platt’s *Inside FERC’s Gas Market Report* (currently published by The McGraw Hill Companies, Inc.) in the table “Market Center Spot-Gas Prices” (or any replacement table) or, if such price is no longer published, the fallback floating commodities prices specified in the Prepaid Contract, plus (2) \$0.02 per MMBtu.

If MLCI believes that it will be unable to deliver scheduled quantities of gas at Henry Hub in full in any month in equal daily deliveries, it may (and if it elects to deliver gas at an alternate delivery point it must) notify the Issuer, by the fifth business day prior to the month, of the daily quantities that MLCI will deliver at each delivery point in the month. As used to measure discrepancies between expected and actual gas deliveries on any day, “*FOM Nomination*” for any day and delivery point in any month means (1) the quantity of gas nominated by MLCI to the Issuer at such delivery point on each day in such month, or (2) absent any such nomination, the quantity of gas required to be delivered by MLCI to the Issuer on such day at Henry Hub pursuant to the Prepaid Contract.

Damages for Unscheduled Underdeliveries. If MLCI fails to deliver to the Issuer on any day at the applicable delivery point a quantity of gas equal to the FOM Nomination for such day and delivery point and such failure is not due to Force Majeure, then MLCI will be required to pay to the Issuer, in addition to and at the same time as any amount payable under the Prepaid Contract for failure to deliver the scheduled quantity in any month, (1) the excess, if positive, of (a) the amount paid by the Exchanger/Balancer or, during any suspension or after termination of the Resale Contract, the Issuer for a substitute supply of gas delivered to such person for such day at such delivery point, or if no substitute supply of gas is delivered to such person at such delivery point, the product of the undelivered quantity and the “Daily Midpoint” price for such delivery point in the table “Daily Price Survey” in *Gas Daily* (currently published by The McGraw-Hill Companies, Inc.) for such day (or, if such price is no longer published, as determined pursuant to fall back pricing specified in the Prepaid Contract) over (b) the product of the undelivered quantity and the FOM Index for such month plus (2) an administrative reimbursement fee of \$0.03 per MMBtu multiplied by the quantity of gas that MLCI fails to deliver in accordance with the FOM Nomination. Whenever damages for unscheduled underdeliveries are payable by MLCI to the Issuer, the same amount of damages is payable by the Issuer to MuniGas under the Resale Contract and by MuniGas to the Exchanger/Balancer under the Exchange and Balancing Agreement, if such contracts remain in effect.

Damages for Underreceipts. If the Issuer fails to receive from MLCI on any day at the applicable delivery point a quantity of gas equal to the FOM Nomination for such day and delivery point, and such failure is not due to Force Majeure, then the Issuer will be required to pay to MLCI, as an off-set to and at the same time as any amount payable pursuant to the Prepaid Contract for failure to deliver the scheduled quantities in any month or, to the extent of any balance, in cash, (1) the excess, if positive, of the FOM Index for such month and delivery point over the price for such day per MMBtu received by MLCI for the resale of the gas that the Issuer fails to receive at such delivery point plus (2) an administrative reimbursement fee of \$0.03 per MMBtu multiplied by the quantity of gas that Issuer fails to receive in accordance with the FOM Nomination. Notwithstanding the foregoing, MLCI may, as agent for the Issuer, sell any gas that the Issuer fails to receive from MLCI on any day at any delivery point to one or more purchasers at the same delivery point, for a price payable on or before the 25th day of the following month, in which case MLCI must remit to the Issuer (a) if such sale is to a Municipal Buyer for Qualified Use, the proceeds of such sale less a commission of \$0.02 per MMBtu, rather than the FOM Index for such delivery point and month as described in “Deliveries and Payments” above adjusted as described in this paragraph, and (b) otherwise the FOM Index for such delivery point and month adjusted as described in this paragraph. Whenever damages for unscheduled failures to receive gas are payable by the Issuer to MLCI, the same amount of damages is payable by the Exchanger/Balancer to MuniGas under the Exchange and Balancing Agreement and by MuniGas to the Issuer under the Resale Contract, if such contracts remain in effect.

Imbalance Charges. If MLCI delivers or the Issuer receives gas at any delivery point on any day in an amount that differs from the FOM Nomination made to the pipeline transporters engaged to make deliveries on behalf of MLCI or to take away deliveries on behalf of the Exchanger/Balancer at such delivery point, then MLCI or the Issuer could incur fees, penalties, costs, or other charges (in cash or kind) assessed by a transporter for failure to satisfy its balance and/or nomination requirements (“*Imbalance Charges*”). MLCI and the Issuer have agreed in the Prepaid Contract to coordinate their nominations to transporters and to use commercially reasonable efforts to avoid the imposition of Imbalance Charges, but each party must pay or reimburse the other for any Imbalance Charges that are caused by discrepancies between nominated and actual deliveries caused by it, whether or not due to Force Majeure. Whenever Imbalance Charges for unscheduled failures to receive gas are payable by the Issuer to MLCI, the same amount of Imbalance Charges is payable by the Exchanger/Balancer to MuniGas under the Exchange and Balancing Agreement and by MuniGas to the Issuer under the Resale Contract, if such contracts remain in effect.

Force Majeure. Except for MLCI’s obligations to pay for undelivered gas as described under “Deliveries and Payments” above and to make payments due upon a termination event or reduction event as described below, and the parties’ obligation to pay Imbalance Charges caused by them, neither party will be liable to the other party for failure to perform its obligations under the Prepaid Contract, to the extent that its failure was caused by Force Majeure. “*Force Majeure*” means any cause not reasonably within the control of the non-performing party, including but not limited to (i) physical events such as acts of God, landslides, lightning, earthquakes, fires, storms or storm warnings, such as hurricanes, which result in evacuation of the affected area, floods, washouts, explosions, breakage or accident or necessity of repairs to machinery or equipment or lines of pipe; (ii) weather related events affecting an entire geographic region, such as low temperatures which cause freezing or failure of wells or lines of pipe; (iii) interruption and/or curtailment of Firm transportation and/or storage by transporters; (iv) acts of others such as strikes, lockouts or other industrial disturbances, riots, sabotage, insurrections or wars; and (v) governmental actions such as necessity for compliance with any court order, law, statute, ordinance, regulation, or policy having the effect of law promulgated by a governmental authority having jurisdiction, including any such event or condition with respect to a supplier to or pipeline transporter for MLCI or a direct purchaser from or pipeline transporter for the Issuer (or the Exchanger/Balancer except during the suspension and prior to termination of the Resale Contract). However, neither party will be entitled to benefit from the Force Majeure provisions to the extent that performance is affected by any or the following circumstances: (i) the curtailment of interruptible or secondary firm transportation unless primary, in-path, firm transportation is also curtailed; (ii) the party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch; or (iii) economic hardship, to include, without limitation, MLCI’s ability to sell gas at a higher or more advantageous price than the contract price, the Issuer’s ability to purchase gas at a lower or more advantageous price than the contract price, or a regulatory agency disallowing, in whole or in part, the pass through of costs resulting from the Prepaid Contract; (iv) the loss of the Issuer’s markets or the Issuer’s inability to use or resell gas purchased under the Prepaid Contract, except, in either case, as provided above; or (v) the loss or failure of MLCI’s gas supply or depletion of reserves, except, in either case, as provided above. The party claiming Force Majeure will not be excused from its responsibility for Imbalance Charges. In addition, the Issuer and MLCI have agreed that the settlement of strikes, lockouts or other industrial disturbances will be within the sole discretion of the party experiencing such disturbance.

Termination. The following are “*Termination Events*” under the Prepaid Contract:

(1) **Payment Default.** Failure by MLCI to make, when due, any payment required to be made by it under the Prepaid Contract, if such failure is not cured by the third business day after MLCI and the ML Guarantor receive notice thereof;

(2) **Substantial Delivery Failure.** Failure (unless due to Force Majeure) by MLCI to deliver to the Issuer, when due under the Prepaid Contract, either any gas scheduled to be delivered for a period of 30 consecutive days or 50% of such gas scheduled to be delivered on any day for 180 cumulative (whether or not consecutive) days;

(3) **Breach of Agreement.** Failure by MLCI to comply with or perform any agreement or obligation (other than an obligation to make any payment or delivery of gas thereunder or to give notice of a Termination Event) to be complied with or performed by MLCI in accordance with the Prepaid Contract if such

failure is not remedied on or before the 30th day after notice of such failure is given to MLCI and the ML Guarantor;

(4) **ML Guaranty Default.** Failure by the ML Guarantor to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with the ML Guaranty of the Prepaid Contract if such failure is continuing after any applicable grace period has elapsed;

(5) **ML Guaranty Termination.** Expiration or termination of the ML Guaranty of the Prepaid Contract or the failing or ceasing of the ML Guaranty of the Prepaid Contract to be in full force and effect for the purpose of the Prepaid Contract (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of MLCI thereunder without the written consent of the Issuer;

(6) **ML Guaranty Repudiation.** MLCI or the ML Guarantor disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, the ML Guaranty of the Prepaid Contract;

(7) **Misrepresentation.** A representation made or repeated or deemed to have been made or repeated by MLCI in the Prepaid Contract or by the ML Guarantor in the ML Guaranty of the Prepaid Contract proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(8) **Cross Default.** The occurrence or existence of (a) a default, event of default or other similar condition or event (however described) in respect of MLCI or the ML Guarantor under one or more agreements or instruments relating to specified indebtedness of either of them (individually or collectively) in an aggregate amount of not less than 3% of the net assets of the ML Guarantor which has resulted in such specified indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (b) a default by MLCI or the ML Guarantor (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than 3% of the net assets of the ML Guarantor under such agreements or instruments (after giving effect to any applicable notice requirement or grace period) or (c) an “Event of Default” in respect of which MLCI is the “Defaulting Party” or a “Termination Event” in respect of which MLCI is the “Affected Party,” all as therein defined, occurs under a commodities price swap, other than due to administrative or operational error;

(9) **Bankruptcy.** MLCI or the ML Guarantor (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (e) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in the immediately preceding clauses (a) to (g) (inclusive); or (i) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts;

(10) **Merger Without Assumption.** MLCI or the ML Guarantor consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such

consolidation, amalgamation, merger or transfer: (a) the resulting, surviving or transferee entity fails to assume all the obligations of MLCI or the ML Guarantor, as applicable, under the Prepaid Contract or the ML Guaranty of the Prepaid Contract by operation of law or pursuant to an agreement reasonably satisfactory to the Issuer; or (b) the benefits of the ML Guaranty of the Prepaid Contract fail to extend (without the consent of the ML Guarantor) to the performance by such resulting, surviving or transferee entity of its obligations under the Prepaid Contract;

(11) **Illegality.** Due to the adoption of, or any change in, any applicable law after the date of the Prepaid Contract, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes (or, contrary to representations by MLCI, the ML Guarantor, or the Issuer, it is) unlawful for the Issuer, the Sponsor, MLCI or the ML Guarantor: (a) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery under the Prepaid Contract or to comply with any other material provision of the Prepaid Contract or (b) to perform any contingent or other obligation which such person has under the ML Guaranty of the Prepaid Contract;

(12) **Swap Termination.** Any event or condition occurs, as a result of which the Price Swap or the Senior Rate Swap is terminable by the Issuer or the Seller Price Swap is terminable by MLCI in accordance with its terms, either upon the giving of notice or the passage of time or both, and the Issuer and MLCI fail to cause an alternate Price Swap Credit Provider or Rate Swap Credit Provider, as applicable, the long-term senior unsecured debt or claims-paying ability or financial strength of which is rated at least “A+” by S&P and “A1” by Moody’s, to enter into a replacement Price Swap, Senior Rate Swap, or Seller Price Swap, as applicable, or guaranty thereof prior to or immediately upon the termination of the Price Swap, Senior Rate Swap, or Seller Price Swap, respectively; or

(13) **Material Change in Tax Consequences.** The enactment and initial imposition of taxes (other than taxes based on net income and franchise and similar taxes required to maintain corporate existence) on either party to the Prepaid Contract after the date of the Prepaid Contract which materially adversely affect the economic benefit thereof to such party and failure by the other party thereto to agree to amend the Prepaid Contract in accordance with the Indenture to avoid such material adverse affect within 60 days after written request from the affected party.

Notwithstanding the foregoing, the events described in paragraphs (3), (4), and (7) will not be a Termination Event under the Prepaid Contract unless the Issuer has reasonable grounds for insecurity regarding future deliveries of gas by MLCI.

If a Termination Event occurs and is continuing (other than an event described in paragraph (11) or (13) with respect to the legality of the Issuer’s obligations, the Issuer’s tax consequences, or an event described in paragraph (12) resulting from the terminability of the Seller Price Swap), then the Issuer (or the Bond Trustee acting on its behalf) may designate an early termination of the Prepaid Contract.

If a Termination Event described in paragraph (11) or (13) with respect to the legality of MLCI’s obligations or MLCI’s tax consequences, or an event described in paragraph (12) resulting from the terminability of the Seller Price Swap occurs and is continuing, then MLCI may designate an early termination of the Prepaid Contract.

If early termination is designated by either party, it is effective (a) at the end of the month following the month in which the Termination Event occurred, if notice of early termination is given, at least six Business Days before the end of the month in which the Termination Event occurred, and otherwise (b) at the end of the second month following the month in which the Termination Event occurred. If the Issuer or MLCI designates an early termination of the Prepaid Contract, it must give notice of the designation to the other party, the ML Guarantor, the Bond Trustee, the Price Swap Provider and the Rate Swap Provider at least six business days prior to the first day of the month in which the termination is to be effective.

Following notice of an Early Termination Date and on or before such Early Termination Date, MLCI is required to sell and deliver to the Issuer, and the Issuer is required to purchase and receive from MLCI, at any delivery points for which an FOM Index is published and designated by MLCI, in addition to the quantity of gas scheduled for delivery for the relevant month at Henry Hub (or the equivalent value of gas to be delivered at any other Delivery Point), quantities of gas with a total

value equal to the termination value for such month scheduled in the Prepaid Contract if MLCI may acquire and deliver such quantities in accordance with all applicable state and federal regulations without affecting the market price of gas at any delivery point, as determined in the sole judgment of MLCI.

Following the effective date of an early termination of the Prepaid Contract, no further gas deliveries will be required to be made by MLCI, and on or before the effective date of the early termination MLCI will be required to pay to the Bond Trustee for the account of the Issuer in immediately available funds (a) the excess, if any, of the scheduled termination value for the early termination date over the total value of gas sold and delivered by MLCI to the Issuer for which the Issuer receives proceeds of resale as of the Business Day immediately preceding such early termination date, plus (b) the amount due from MLCI for any gas not delivered by MLCI in any prior month, plus (c) all other charges payable by MLCI (net of charges payable by the Issuer) under the Prepaid Contract for any gas delivered or to have been delivered in any prior month for which payment has not yet been made, plus (d) the amount owed by the Issuer to the Price Swap Provider under the Price Swap upon termination thereof. The amount of such termination payment has been calculated to be sufficient, together with any required deposits to the Senior Interest Account and Senior Principal Account or the balance of the Debt Service Reserve Fund, to pay the redemption price of all of the Senior Lien Bonds scheduled to be outstanding (after giving effect to mandatory sinking fund redemption), and under the Indenture must be used for such purpose. See “The Senior Lien Bonds—Extraordinary Mandatory Redemption—Early Termination Redemption.”

Reductions in Deliveries. A “*Reduction Event*” under the Prepaid Contract means the occurrence of the last Business Day of the second month preceding each date for the redemption of Senior Lien Bonds as described under “The Senior Lien Bonds—Extraordinary Mandatory Redemption—Remedial Action Redemption” and “—Reserve Deficiency Redemption” as a result of the inability of MLCI to (or its election not to) (a) induce sufficient Municipal Buyers to purchase sufficient quantities of gas from MuniGas or the Issuer for qualified use, or (b) loan funds to the Issuer to replenish any deficiency in the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund under the Indenture. If a Reduction Event is to occur, the Issuer (or the Bond Trustee on its behalf) must designate the date of the Reduction Event as a Reduction Date and the amounts to which the quantities of gas required to be delivered by MLCI in each succeeding month are to be reduced. The Issuer must give notice of each Reduction Date at least six business days prior to the end of the month in which the Reduction Date occurs, and notice of each revocation of redemption that affects the Reduction Date or its consequences.

Following notice of designation of a Reduction Date resulting from the redemption of Senior Lien Bonds of a series and stated maturity and on or before such Reduction Date, MLCI must sell and deliver to the Issuer, and the Issuer is required to purchase and receive from MLCI, at any delivery points designated by MLCI, in addition to the quantity of gas for the relevant month scheduled to be delivered at Henry Hub (or the equivalent value of gas to be delivered at any other delivery point), quantities of gas with a total value (the “*Reduction Value*” for such Reduction Date) equal to the sum of the products, for such Senior Lien Bonds of each series and stated maturity, of (a) the termination value for such Bonds and Reduction Date scheduled in the Prepaid Contract and (b) the fraction, the numerator of which is equal to the aggregate principal amount of the Senior Lien Bonds of such series and stated maturity being redeemed on such Redemption Date or the immediately following Business Day (other than as described under “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Mandatory Sinking Fund Redemption” herein) and the denominator of which is equal to the excess of (i) the aggregate principal amount of Senior Lien Bonds of such series and stated maturity outstanding immediately prior to such Reduction Date, over (ii) the aggregate principal amount of Senior Lien Bonds of such series and stated maturity coming due or to be redeemed on such Reduction Date or the immediately succeeding Business Day, but only if MLCI may acquire and deliver such quantities in accordance with all applicable state and federal regulations without affecting the market price at any delivery point, as determined in the sole judgment of MLCI, and in the opinion of nationally recognized bond counsel the resale of such gas will not adversely affect the tax-exempt status of any Bond. On or before the last business day of the month immediately following the month in which the Reduction Date occurs (i.e., prior to the related Redemption Date), MLCI must pay to the Bond Trustee for the account of the Issuer in immediately available funds (1) the excess, if any, of (a) the Reduction Value for such Reduction Date over (b) the total value of gas sold and delivered by MLCI to the Issuer as of the Business Day immediately preceding such Reduction Date plus (2) the amount owed by the Issuer to the Price Swap Provider due to the resulting reduction in the notional amounts of the Price Swap.

The reduction payment has been calculated to be sufficient, together with required deposits to the Senior Interest Account and Senior Principal Account or the balance of the Debt Service Reserve Fund, to pay the redemption price of the Senior Lien Bonds whose redemption caused the Reduction Event, and under the Indenture must be used for such purposes.

Following each Reduction Date, the monthly quantities of gas to be delivered by MLCI, and the amounts payable by MLCI upon any termination of the Prepaid Contract, will be reduced as described in the Prepaid Contract.

Upon each Reduction Event, the Issuer must provide MLCI and the Bond Trustee with revised schedules of such gas deliveries and termination payments and cause an accounting firm of national reputation to verify that (1) each reduced scheduled termination payment is equal to or exceeds the Amortized Value of the Fixed Rate Bonds and the principal amount of the Index Rate Bonds scheduled to remain outstanding in the applicable month, assuming only future redemptions described under “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Mandatory Sinking Fund Redemption” and (2) the product of the reduced monthly scheduled quantities of gas and the fixed price for the applicable months payable by the Price Swap Provider under the Price Swap for each 12-month period ending October 31 is equal to or exceeds the principal of and interest on the Senior Lien Bonds payable in the 12-month period ending on the next December 15, assuming interest on the Index Rate Bonds at the fixed rate payable by the Issuer under the Senior Rate Swap and redemption of Senior Lien Bonds only as described under “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Mandatory Sinking Fund Redemption” herein plus Senior Operating and Program Expenses budgeted for the 12-month period ending November 30. If the Issuer fails to deliver such a verification, the Senior Lien Bonds must be redeemed in whole. See “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Extraordinary Mandatory Redemption” herein.

The ability of the Issuer to pay the redemption price of the Senior Lien Bonds in connection with any extraordinary mandatory redemption in whole or in part will depend upon the payment by MLCI or the ML Guarantor to the Bond Trustee (for the account of the Issuer) of the termination or partial termination amounts due under the Prepaid Contract.

Rights to Avoid Early Termination. The Issuer may not terminate the Price Swap or the Senior Rate Swap unless it has given MLCI written notice that an “Event of Default” or “Termination Event,” as therein defined, has occurred thereunder and MLCI has elected not to or has been unable to cure such “Event of Default” or “Termination Event” within 30 days after such notice by causing a replacement Price Swap Provider or Rate Swap Provider to assume or guaranty and perform the obligations of the Price Swap Provider or Rate Swap Provider, respectively, thereunder. Upon written request of MLCI and payment of the Issuer’s reasonable expenses in connection therewith, the Issuer must (1) enter into a master agreement with an alternate Price Swap Provider or Rate Swap Provider designated or approved by MLCI, the long-term senior unsecured debt or claims-paying ability or financial strength of which (or of whose credit support provider) is rated at least “A+” by S&P and “A1/P-1” by Moody’s, and (2) terminate the Price Swap and the Senior Rate Swap when permitted thereby and enter into a replacement transaction under such master agreement to the same effect. The Issuer may not replace a Price Swap or Senior Rate Swap without MLCI’s consent. Whenever (a) MLCI terminates the Seller Price Swap in accordance with its terms and enters into a substitute Seller Price Swap with any person, the Issuer must, on written request by MLCI, terminate the Price Swap in accordance with its terms and enter into a replacement Price Swap with such person on the same terms as the Price Swap being terminated, and (b) the Issuer terminates the Price Swap and enters into a replacement Price Swap with any person, MLCI must, on written request by the Issuer, terminate the Seller Price Swap in accordance with its terms and enter into a replacement Seller Price Swap with such person on the same terms as the Seller Price Swap being terminated, provided that, in each case, the senior unsecured long-term debt of the counterparty to the replacement Price Swap or Seller Price Swap is rated at least “A1/P-1” by Moody’s and “A+” by S&P.

The Issuer must make (or cause MuniGas to make) monthly reports to MLCI concerning current and cumulative sales of gas to Municipal Buyers for Qualified Use and sales for Private Business Use. The Issuer must immediately notify MLCI at any time that the Issuer reasonably expects that the cumulative quantity of gas delivered and to be delivered under the Prepaid Contract and used or to be used for a Qualified Use or Private Business Use will require early redemption of Bonds.

In the event that (1) the cumulative quantity of gas delivered under the Prepaid Contract through the immediately preceding month and used for a Qualified Use is less than 92% of the cumulative quantity of gas delivered under the Prepaid Contract through the end of such month, (2) the Issuer or MuniGas does not reasonably expect to sell gas for Qualified Use in a quantity that will be greater than 90% of the remaining quantity of gas to be delivered during the remaining term of the Prepaid Contract, or (3) the cumulative value of gas purchased under the Prepaid Contract and delivered by MLCI to the Issuer less the cumulative value of gas delivered to MuniGas by the Exchanger/Balancer under the Exchange Agreement in exchange therefor (as determined pursuant to the Exchange and Balancing Agreement) exceeds \$15,000,000 for the six immediately preceding months, MLCI will have the right, but not the obligation, to seek state or local governmental units to

enter into gas purchase contracts. The Issuer must cause MuniGas and the Sponsor to enter into any such purchase contract on substantially the same terms on which MuniGas contracts for the sale of gas to other buyers, or on terms and prices negotiated by MLCI and the Issuer in good faith, and to accept orders for the purchase of gas for Qualified Uses that are received by MuniGas from such state or local governmental units, provided that the senior long-term revenue obligations of such state or local governmental unit are rated at least “A-” by S&P and “A3” by Moody’s or the credit of such state or local governmental unit is approved by the Exchanger/Balancer in accordance with the Exchange and Balancing Agreement. To the extent required to avoid a Reduction Event or if the cumulative imbalance owed by the Exchanger/Balancer under the Exchange and Balancing Agreement exceeds \$50,000,000, the Issuer must cause MuniGas to offer gas for sale under spot gas sales contracts, to Municipal Buyers recruited by MLCI to avoid an early redemption of Bonds, at the same price discount at which MuniGas sells gas under Purchase Contracts. In the event that the Resale Contract is terminated by Issuer or the Bond Trustee in accordance with its terms, the Issuer must enter into such contracts directly with (and accept orders for gas from) such state or local governmental units on the same terms and conditions under which it was obligated to cause MuniGas to do so.

Whenever the Issuer may suspend or terminate the sale and delivery of gas to MuniGas under the Resale Contract, MuniGas has agreed to use commercially reasonable efforts to enter into an assignment of the Exchange and Balancing Agreement or a replacement agreement with the Exchanger/Balancer or another entity acceptable to the Issuer substantially to the effect of the Exchange and Balancing Agreement.

MLCI will have the right, but not the obligation, from time to time to make a Reserve Loan to the Issuer, for deposit to the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund under the Indenture, in any amount required to be deposited therein to the extent required to avoid a redemption of the Senior Lien Bonds pursuant to the Indenture, unless the Issuer obtains a loan from another source. If MLCI makes a Reserve Loan to the Issuer, the Issuer must (1) repay such loan, with interest at the lesser of MLCI’s costs of funds plus 1% per annum or 15% per annum, and may prepay such Reserve Loan at any time, from and to the extent of funds available for such purpose from time to time in the Subordinate Interest Account and Subordinate Principal Account held under the Indenture or proceeds of any other Reserve Loan, (2) adjust the price discount under the Resale Contract as and to the extent permitted thereby and expected to be sufficient to repay the Reserve Loan with interest in full within the lesser of five years or the remaining term of the Prepaid Contract plus one month, and (3) observe and perform each and every obligation of the Issuer under the Indenture until the Reserve Loan is repaid with interest in full.

If the Exchange and Balancing Agreement expires or is terminated by MuniGas and is not replaced by MuniGas, the Issuer must cause MuniGas to enter into a replacement Exchange and Balancing Agreement with any person on written request by MLCI on substantially the same terms, provided that the long-term senior unsecured debt obligations of such person are rated at least “A1” by Moody’s and “A+” by S&P.

Gas Sales Upon Reduction Date or Early Termination Date. Following the designation of a Reduction Date or Early Termination Date, the Issuer must enter into spot gas sales contracts with any person designated by MLCI for the sale of gas by the Issuer on substantially the same terms on which MuniGas has contracted for the sale of gas to other buyers, or on substantially the same terms as the NAESB standard base contract from with substantially the same elections and special provisions as set forth in the Resale Contract, or on other terms negotiated by MLCI and the Issuer in good faith and must accept orders for the purchase of gas by such persons at prices agreed to by MLCI and such persons. If the Issuer has not received payment for such gas from any purchaser of such gas from the Issuer prior to the early termination date or Reduction Date, as applicable, then, to the extent of any cash payment made by MLCI to the Issuer, MLCI will be subrogated to the Issuer’s rights to subsequent payment, including interest and any late charges in respect thereof, and the Issuer must remit any such sums to MLCI as and if collected. If a redemption of Bonds causing a Reduction Event is revoked, the Issuer must remit all proceeds of sale of supplemental gas deliveries in respect thereof to MLCI.

Warranties; Indemnities. MLCI will warrant in the Prepaid Contract that it will have the right to convey and will transfer good and merchantable title to all gas sold thereunder and delivered by it to the Issuer, free and clear of all liens, encumbrances, and claims. MLCI will agree to indemnify the Issuer and save it harmless from all losses, liabilities or claims, including reasonable attorneys’ fees and costs of court (“*Claims*”), from any and all persons, arising from or out of claims of title, personal injury or property damage from gas sold and delivered by it to the Issuer under the Prepaid Contract or other charges thereon which attach before title passes the Issuer. The Issuer will agree to indemnify MLCI and save it harmless from all Claims, from any and all persons, arising from or out of claims regarding payment, personal injury or property

damage from such gas or other charges thereon which attach after title passes to the Issuer. As between MLCI and the Issuer, MLCI will be liable for all Claims to the extent that they arise from the failure of gas delivered by MLCI to meet the quality requirements set forth in the Prepaid Contract.

The Resale Contract

Under the Resale Contract, the Issuer will agree to sell and deliver to MuniGas (through the Sponsor) and MuniGas will agree to purchase and receive from the Issuer, the natural gas sold to the Issuer under the Prepaid Contract (other than supplemental gas delivered to the Issuer upon termination of the Prepaid Contract in whole or part). Such gas will be sold and delivered to MuniGas (through the Sponsor) at Henry Hub, which is the same place where it is to be sold and delivered to the Issuer. MuniGas is obligated to pay for such gas, on last business day of the month after the month in which the gas is delivered, at a variable price discount from the Henry Hub FOM Index for the month of delivery. Such price discount will be determined periodically by the Issuer as the maximum discount that nevertheless will enable the Issuer to receive sufficient revenue to pay debt service on the Bonds and expenses of the Issuer and to maintain required cash reserves. In addition, if the Issuer determines that its cash reserves exceed required or prudent amounts, the Issuer has agreed to rebate such excess to MuniGas to the extent permitted by the Indenture.

MuniGas may elect not to purchase gas from the Issuer under the Resale Contract in any month if the amount of the price discount for such gas offered by the Issuer is insufficient to permit MuniGas to pay its Senior Operating and Program Expenses. In such event, the Resale Contract permits the Issuer to sell gas acquired by it under the Prepaid Contract to MuniGas at a greater discount than proposed (if consistent with the Indenture) or, except as described under “Defaults and Remedies” below, to sell such gas to other parties. The Issuer has entered into separate brokerage agreements with MLCI and BP Energy Company to assist the Issuer in marketing such gas directly to qualified Municipal Buyers in such event. The brokerage agreements extend for a three-year term and thereafter if agreed by the respective parties. If the Issuer cannot sell all such gas to other parties, BP Energy Company will agree under the Standby Purchase Agreement, for the remaining term of the Exchange and Balancing Agreement, to purchase any unsold gas from the Issuer at Henry Hub for a price equal to the same value that it would have credited to MuniGas had such gas been delivered to the Exchanger/Balancer under the Exchange and Balancing Agreement.

Damages for Underdeliveries by Issuer. If the Issuer fails to deliver to MuniGas on any day at Henry Hub the FOM Nomination for such day and such failure is not due to Force Majeure, then the Issuer will be obligated to pay to MuniGas the amount MuniGas owes to the Exchanger/Balancer pursuant to the Exchange and Balancing Agreement on account of such failure, which is equal to the amount payable by MLCI to the Issuer on account of such failure under the Prepaid Contract.

Damages for Underreceipts by MuniGas. If MuniGas fails to receive from Issuer on any day at Henry Hub the FOM Nomination for such day, and such failure is not due to Force Majeure, then MuniGas will be obligated to pay to the Issuer the amount that the Issuer owes under the Prepaid Contract on account of such failure, which is equal to the amount payable to MuniGas by the Exchanger/Balancer on account of such failure.

Force Majeure; Imbalance Charges. The Issuer and MuniGas will agree to cooperate to avoid Imbalance Charges and to pay or reimburse Imbalance Charges caused by them on substantially the same terms as those agreed to by MLCI and the Issuer under the Prepaid Contract. Except for payment obligations, performance of the obligations of the Issuer and MuniGas under the Resale Contract will be excused under substantially the same conditions as those under which the obligations of MLCI and the Issuer may be excused under the Prepaid Contract. See “The Prepaid Contract—Imbalance Charges” and “The Prepaid Contract—Force Majeure” above.

Additional Buyers. MuniGas and the Sponsor will agree, when requested by the Issuer, to enter into a gas purchase contract with any state or local governmental unit that the Issuer or MLCI induces to enter into the same (on substantially the same terms on which MuniGas contracts for the sale of gas to other buyers or on other terms and prices negotiated in good faith by MuniGas and MLCI in good faith), and to accept orders for the purchase of gas for Qualified Uses that are received by MuniGas from such state or local governmental units, provided that the senior long-term revenue obligations of such state or local governmental unit are rated at least “A-” by S&P and “A3” by Moody’s or the credit of such state or local governmental unit is approved by the Exchanger/Balancer in accordance with the Exchange and Balancing Agreement. To the extent required to avoid a Reduction Event under the Prepaid Contract, or if specified imbalances exist under the

Exchange and Balancing Agreement for specified periods, MuniGas must offer gas for sale under Spot Gas Sales Contracts at the same price discount at which it sells gas under the Cooperative Contract.

Tax Covenants. MuniGas will agree not to take any action or omit to take any action which would adversely affect the excludability of interest on any Bond from the gross income of the owner thereof for federal income tax purposes. In addition, MuniGas will make the following specific covenants for that purpose.

No Private Use or Payments. Prior to the last retirement of the Bonds, MuniGas will not use or permit the use of gas sold or funds paid to it by Issuer or the Sponsor under the Resale Contract or proceeds of sale of such gas directly or indirectly in any Private Business Use (as defined in the Resale Contract); except that MuniGas may sell to the Exchanger/Balancer or another person for Private Business Use (1) quantities of gas with a cumulative value (equal to the price payable to the Issuer under the Price Swap for the month of delivery) to any date that does not exceed the lesser of (a) \$15,000,000 or (b) 5% of the cumulative value (as so determined) of all gas purchased under the Resale Contract as of such date and (2) supplemental gas delivered to the Issuer by MLCI upon termination of the Prepaid Contract in whole or part.

No Private Loan. MuniGas will not to use gas sold or funds paid to it by Issuer or the Sponsor under the Resale Contract or proceeds of sale of such gas to make or finance loans to any person other than a state or local government, excluding loans consisting of temporary investments of money pending application for its intended purposes.

Use in Qualified Service Areas. MuniGas will cause each Municipal Buyer to forecast, nominate, and sell or burn gas purchased by it through the Sponsor from MuniGas pursuant to a purchase contract such that all such gas is (1) furnished to customers of the Municipal Buyer who purchase such gas other than for resale or to produce electricity for sale and are located in either (a) an area throughout which the Municipal Buyer provided, at all times during the 5-year period ending on the date of initial authentication and delivery of the Bonds, natural gas transmission or distribution services or (b) an area recognized as the natural gas service area of the Municipal Buyer under state or federal law, or (2) used by the Municipal Buyer to produce electricity that is furnished to electric customers of the Municipal Buyer who purchase such electricity other than for resale and are located in either (a) an area throughout which the Municipal Buyer provided, at all times during such 5-year period, electricity distribution service or (b) an area recognized as the electricity service area of the Municipal Buyer under state or federal law, all determined in accordance with written explanations provided by Issuer to MuniGas from time to time, or (3) used by the Municipal Buyer to produce electricity that is sold to a utility owned by a state or local government and is furnished by such utility to electric customers of such utility who purchase such electricity other than for resale and are located in either (a) an area throughout which such utility provided, at all times during such 5-year period, electricity distribution service or (b) an area recognized as the electricity service area of such entity under state or federal law, all determined in accordance with written explanations provided by Issuer to MuniGas from time to time, or (4) sold to a utility owned by a state or local government that furnishes or uses such gas solely as described in the immediately preceding clauses (1), (2), and (3), applied as if references to “the Municipal Buyer” therein were to such utility, or (5) used to fuel the pipeline transportation of such gas. The uses and sales described in clauses (1) through (5) of the immediately preceding sentence that comply with the covenants described in the two preceding paragraphs are referred to herein as “*Qualified Use*”. MuniGas may not release, waive, or amend any such obligations of a Municipal Buyer and, if it should know of any breach in any such obligation, will take such actions as may be necessary to cause such Municipal Buyer to observe and perform such obligations and will report such breach to the Issuer.

MuniGas will employ reasonable efforts to cause all gas purchased, or exchanged for gas purchased, by it under the Resale Contract to be sold to Municipal Buyers for Qualified Use. MuniGas will review on a monthly basis the current and cumulative amounts of gas purchased under the Resale Contract and used for a Qualified Use, and the current and cumulative amounts of gas used for Private Business Use, and report such amounts to the Issuer. If either the current or cumulative amount of Qualified Use of such gas is less than 90% of the total current or cumulative amount of such gas, or if either the current or cumulative value of such gas used for Private Business Use exceeds \$15,000,000 or 5% of the current or cumulative value of the total current or cumulative value of such gas (each valued at the price payable to the Issuer under the Price Swap), then MuniGas must make such inquiries of Municipal Buyers which have executed purchase contracts or letters of intention to purchase gas from MuniGas as shall be necessary to make a reasonable estimate of the amounts of Qualified Use and Private Business Use of Gas to be purchased from Issuer under the Resale Contract, based on historical use and demonstrably indicated expected changes in use, and must report the results of such inquiries to the Issuer. Notwithstanding the creation of such other public facility corporations, MuniGas has agreed with the Issuer that all MuniGas sales to Municipal Buyers of gas financed with tax-exempt bonds (or produced from mineral interests financed with tax-exempt

bonds) or exchanged for such gas will be allocated first to gas purchased by MuniGas from the Issuer under the Resale Contract (or gas exchanged therefor) to the extent consistent with applicable federal income tax regulations.

Not to Invest at Higher Yield. MuniGas may not, at any time prior to the final retirement of the Bonds, directly or indirectly invest money paid by the Issuer to MuniGas from proceeds of the Bonds in any taxable investment, if as a result of such investment the yield of all taxable investments acquired with (or representing an investment of) such money, whether then held or previously disposed of, on or prior to the date of such investment exceeds the yield of the Bonds, excluding from the foregoing, however, money held for a “temporary period” or in a “reasonably required reserve or replacement fund”, or as less than a “minor portion,” as defined in applicable U.S. Treasury regulations to the extent applicable to the Bonds.

Defaults and Remedies. Each of the following events will constitute an “*Event of Default*” under the Resale Contract:

(1) **Payment Default:** default in the payment when due of any amount due and payable by the Sponsor or MuniGas under the Resale Contract and continuance of such default for two business days; or

(2) **Covenant Default:** default in the performance, or breach, of any covenant or material warranty (other than a covenant or warranty a default in the performance or breach of which is specifically dealt with in another clause of this definition) of the Sponsor or MuniGas in the Resale Contract and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to the Sponsor and MuniGas by the Issuer or the Bond Trustee, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” under the Resale Contract; or

(3) **Involuntary Bankruptcy:** the filing of a petition for relief against the Sponsor or MuniGas, as debtor, under the Bankruptcy Code or any other applicable federal or state law of similar import, or the entry of a decree or order by a court having jurisdiction in the premises appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of or for the Sponsor or MuniGas, or ordering the winding up or liquidation of the affairs of the Sponsor or MuniGas, and the continuance of the case commenced by such petition or any such decree or order unstayed and in effect for a period of 90 consecutive days, unless such decree or order has been limited so as to remove the Program Documents (which term includes the Cooperative Contract, MuniGas Trust Agreement, Exchange and Balancing Agreement, and Resale Contract) and the assets related thereto from the control, supervision, and jurisdiction of the court entering such decree or order and of such custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official by the end of such period; or

(4) **Voluntary Bankruptcy:** the commencement by the Sponsor or MuniGas of a voluntary case under the Bankruptcy Code or any other applicable federal or state law of similar import, or the consent or acquiescence by the Sponsor or MuniGas to the commencement of such a case under the Bankruptcy Code or any such law or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Sponsor or MuniGas, or the making by the Sponsor or MuniGas of an assignment for the benefit of creditors, or the admission by the Sponsor or MuniGas in writing of its inability to pay its debts under the Resale Contract as they become due, or the taking of corporate action by the Sponsor or MuniGas in furtherance of any such action and a court shall not have limited such case, petition, or possession so as to remove the Program Documents and the assets related thereto from the control, supervision, and jurisdiction of such court or custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official within 90 days after such commencement, consent, or acquiescence; or

(5) **Material Debt Default:** a default by MuniGas in respect of any debt of MuniGas having an outstanding principal balance in excess of the combined balances of the Operating Reserve Fund and Surplus Account held under the MuniGas Trust Agreement and continuance of such default beyond any applicable grace or cure period, as a result of which the holder of such debt has a right to accelerate such debt pursuant to the terms applicable thereto; or

(6) **Litigation:** the rendition against MuniGas by a court of record of a final judgment for the payment of money (which, together with all other outstanding final judgments for the payment of money against MuniGas, exceeds the combined balances of the Operating Reserve Fund and Surplus Account held under the MuniGas Trust Agreement), and failure by MuniGas to discharge the same or provide for its discharge in accordance with its terms or procure a stay of execution thereof within 30 days from the date of entry thereof or within such period of 30 days, or such longer period during which execution of such judgment shall have been stayed, to move to vacate such judgment or appeal therefrom and cause the execution thereof to be stayed pending determination of such motion or during such appeal; or

(7) **Cross Default:** an event of default, as therein defined, under any Program Document shall have occurred and be continuing or, if no such event of default is defined thereunder, material default in the performance, or breach, of any material covenant or warranty under any Program Document by any party thereto other than the Issuer, and continuance of such default or breach for a period of 30 days after there has been given to such party by the Sponsor, MuniGas, the Issuer, or the Bond Trustee a written notice specifying such default or breach and requiring it to be remedied within such 30-day period.

If an Event of Default occurs and is continuing, then the Issuer may (1) suspend further sales and deliveries of gas to the Sponsor and MuniGas under the Resale Contract or (2) terminate the Resale Contract, and in any such case the Issuer may sell and deliver gas purchased under the Prepaid Contract to third parties. However, the Issuer may not suspend or terminate gas sales to MuniGas unless (a) the Issuer has entered into a replacement of the Exchange and Balancing Agreement, (b) an Event of Default has existed under the Resale Contract, or the Issuer has sold gas to MuniGas at a discount that exceeds the greatest discount required under the Resale Contract for three consecutive months, or (c) MLCI consents. The Issuer may also proceed to protect and enforce its rights and the rights of the Issuer and the Bond Trustee under the Resale Contract by a suit, action, or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Resale Contract or in aid of the execution of any power granted in the Resale Contract or for the enforcement of any other legal, equitable, or other remedy, as the Issuer shall deem most effectual to protect and enforce any of the rights of the Issuer and the Bond Trustee. MuniGas is required to pay all costs and expenses incurred by the Issuer or the Bond Trustee in enforcing observance and performance of MuniGas' obligations under the Resale Contract, and must pay interest on all sums payable to the Issuer or the Bond Trustee under the Resale Contract, as provided thereunder.

Waiver of Set-Off. Under the Resale Contract, the Sponsor will waive all rights of set-off, recoupment, counterclaim, and abatement against the Issuer and the Bond Trustee, and MuniGas will waive all rights of set-off, recoupment, counterclaim, and abatement against the Issuer, the Sponsor, and the Bond Trustee, in each case to the fullest extent that they may lawfully agree and notwithstanding any breach by any such person of any obligation under the Resale Contract, the Indenture or the Cooperative Contract.

Limited Recourse. The obligations of MuniGas and the Sponsor under the Resale Contract are payable only from and to the extent of, in the case of the Sponsor, gas delivered to it under the Resale Contract and funds paid to it by another party to the Resale Contract, and, in the case of MuniGas, proceeds from its sale of gas purchased under the Resale Contract or received in exchange therefor plus deposits received (less deposits made) under the Exchange and Balancing Agreement, other payments made to MuniGas under the transaction documents in respect of such gas, and funds held under the MuniGas Trust Agreement to the extent permitted thereby. The obligations of MuniGas under the Resale Contract are secured by the MuniGas Trust Agreement. See "MuniGas Cooperative Gas Purchasing Program—The MuniGas Trust Agreement" herein.

The Commodities Price Swap

Although the Issuer will acquire scheduled volumes of natural gas each month pursuant to the Prepaid Contract, the price at which such gas will be sold to MuniGas will vary based on the FOM Index for Henry Hub. In order to hedge against changes in the purchase price payable to it for such gas, the Issuer will enter into a natural gas commodities price swap agreement (the "Price Swap") with BP Corporation North America Inc. (the "Price Swap Provider") with the same term as the term of the Prepaid Contract. Under the Price Swap, on the last business day of each month the Issuer will pay a price equal to the prior month FOM Index for Henry Hub plus a spread, and will receive a fixed price, for notional quantities of natural gas equal to the quantities scheduled to be delivered to the Issuer under the Prepaid Contract in such prior month.

The Issuer has credit risk to the extent that the Price Swap Provider fails to pay any net amounts payable by it under the Price Swap.

The Issuer and the Price Swap Provider may each terminate the Price Swap if the other party commits certain events of default or misrepresentations, or commits an act of insolvency, or consolidates or merges with or transfers substantially all of its assets to another entity which has not assumed the Price Swap or whose creditworthiness is materially weaker, or may not legally perform its obligations under the Price Swap. In addition, the Price Swap may be terminated: (a) by the Issuer if the long-term senior unsecured indebtedness of the Price Swap Provider is no longer rated at least “BBB+” by S&P or “Baa1” by Moody’s, and the Price Swap Provider does not, within 60 days, deliver to the Issuer a confirmation from S&P and Moody’s that their ratings assigned to the Senior Lien Bonds will not be reduced, qualified, suspended or withdrawn; (b) by the Issuer (if resulting from an event of default or termination event by the Price Swap Provider under the Price Swap) and otherwise by the Price Swap Provider, if the principal of the Senior Lien Bonds is declared to be immediately due and payable by the Bond Trustee pursuant to the Indenture or the Prepaid Contract is terminated in whole; or (c) by the Issuer if an event of default in respect of which the Price Swap Provider is a defaulting party or a termination event in respect of which the Price Swap Provider is an affected party occurs under the Seller Price Swap.

Whenever the quantities of gas to be delivered by MLCI to the Issuer in future months are reduced as a result of a Reduction Event under the Prepaid Contract, the notional amounts under the Price Swap for such months will be reduced by the same amount without charge to either party.

The Issuer has agreed to use reasonable efforts to terminate the Price Swap if it becomes terminable under the terms thereof and to replace the Price Swap with another Price Swap on substantially the same terms with a provider whose senior long-term unsecured debt is rated at least “AA-“ by S&P and “Aa3” or “A1/P-1” by Moody’s.

Upon termination or reduction of the Price Swap, neither party will owe any termination payment to the other party, except for accrued scheduled payments to the termination date, and except that in certain circumstances, the Issuer will owe the Price Swap Provider the present value of its imbedded spread for the remaining term of the Price Swap (but not more than the then current balance of the Price Swap Reserve Fund), in which case the Issuer will be owed an equal additional amount by MLCI upon termination or reduction of the Prepaid Contract.

The Interest Rate Swap

In connection with the issuance of the Index Rate Bonds and the Subordinate Lien Bonds, the Issuer will enter into interest rate swap transactions (with respect to the Index Rate Bonds, the “*Senior Rate Swap*,” with respect to the Subordinate Lien Bonds, the “*Subordinate Rate Swap*,” and collectively the “*Rate Swaps*”) with Merrill Lynch Capital Services Inc. (the “*Rate Swap Provider*”) in order to hedge against changes in the Issuer’s interest expense associated with the Index Rate Bonds and the Subordinate Lien Bonds, respectively, and achieve net synthetic fixed rate obligations. Under the each Rate Swap, for the term of the Index Rate Bonds and Subordinate Lien Bonds, as applicable, the Issuer will agree to make quarterly payments based upon a fixed rate of interest, and the Rate Swap Provider will agree to make quarterly floating rate payments at the same rate as the rate of interest on the related Bonds, in each case times a notional amount equal to the aggregate principal amount of Index Rate Bonds or Subordinate Lien Bonds, as applicable, scheduled to remain outstanding in each period after any mandatory sinking fund redemption. The Issuer’s obligations under the Rate Swaps will be secured under the Indenture on a basis subordinate to the Senior Lien Bonds. The Rate Swaps do not alter the Issuer’s obligation to pay principal and interest on the Index Rate Bonds or the Subordinate Lien Bonds. The holders of the Index Rate Bonds and the Subordinate Lien Bonds have no preferential rights to net amounts received under the Rate Swaps or any claims against the Rate Swap Provider. Rather, all such receipts are to be deposited to and applied as part of the Revenue Fund under the Indenture. The ML Guarantor will guaranty the payment obligations of the Rate Swap Provider under the Rate Swaps. The Issuer has credit risk on the Rate Swaps to the extent that the Rate Swap Provider and the ML Guarantor fail to make payments due under the Rate Swaps.

The Issuer and the Rate Swap Provider may each terminate any of the Rate Swaps if the other party commits certain events of default or misrepresentations, or consolidates or merges with or transfers substantially all of its assets to another entity which has not assumed such Rate Swap or whose creditworthiness is materially weaker, or may not legally perform its obligations under such Rate Swap. In addition, the applicable Rate Swap may be terminated by either party (i) if the

principal of the Senior Lien Bonds or Subordinate Lien Bonds, respectively, is declared to be immediately due and payable by the Bond Trustee pursuant to the Indenture; or (ii) upon the optional redemption by the Issuer of all of the outstanding Index Rate Bonds of the related maturity or Subordinate Lien Bonds, respectively. **Neither the Issuer nor the Rate Swap Provider may terminate the Rate Swaps as a result of any downgrade in the credit rating of the ML Guarantor.**

Upon termination of a Rate Swap, the applicable party will be obligated to pay its accrued net payment obligations under such Rate Swap, but neither party will owe the other party a market-based or other termination payment unless the Rate Swap is terminated as a result of an optional redemption of Index Rate Bonds or Subordinate Lien Bonds, as applicable.

The notional amount under the Rate Swaps will be reduced upon each redemption of the Index Rate Bonds and Subordinate Lien Bonds as a result of a Reduction Event under the Prepaid Contract. Neither party will owe any settlement amount to the other party on account of any such reduction.

The Issuer's obligations under the Senior Rate Swap and the Subordinate Rate Swap will be secured under the Indenture by the Senior Rate Swap Reserve Fund and the Subordinate Rate Swap Reserve Fund, respectively, and, on a basis subordinate to the Senior Lien Bonds, by the balance of the Trust Estate. Any amounts received by the Issuer under the Rate Swaps will be deposited with the Bond Trustee for credit to the Revenue Fund. The Rate Swap Provider's obligations under the Rate Swaps are unsecured.

The Seller Price Swap

In order to hedge against changes in the price of gas to be delivered by it under the Prepaid Contract, MLCI has entered into the Seller Price Swap with the Price Swap Provider under which MLCI would pay a fixed gas price to the Price Swap Provider in return for the Price Swap Provider's payment to MLCI of a floating index gas price based on the FOM Index at Henry Hub less a spread, in each case times the same notional amounts as under the Price Swap with the Issuer. The Seller Price Swap may be terminated by either party. Upon termination neither party will owe a market-based settlement or other termination payment to the other party. The Seller Price Swap does not relieve MLCI of its obligation to perform under the Prepaid Contract, is not payable to the Issuer and is not a source of payment of or security for the Bonds.

The ML Guaranties

ML Guaranties. Pursuant to separate guaranty agreements (collectively, the "*ML Guaranties*," and each an "*ML Guaranty*"), the ML Guarantor will unconditionally guaranty to the Issuer the due and punctual payment of any and all amounts payable by: (1) MLCI and its successors and permitted assigns (to the extent such successors or permitted assigns are direct or indirect subsidiaries of the ML Guarantor) under the terms of the Prepaid Contract and (2) the Rate Swap Provider and its successors and permitted assigns (to the extent such successors or permitted assigns are direct or indirect subsidiaries of the ML Guarantor) under the terms of the Rate Swaps, including, in the case of either the Prepaid Contract or the Rate Swaps, amounts payable in case of default or interest on any amount, when and as the same shall become due and payable, whether on the scheduled payment dates, at maturity, upon designation of each termination or otherwise, according to the terms thereof. In case of the failure of MLCI or the Rate Swap Provider punctually to make any such payment, the ML Guarantor agrees to make such payment, or cause such payment to be made, promptly upon demand by the Issuer or the Bond Trustee to the ML Guarantor. However no delay by the Issuer or the Bond Trustee in giving such demand will affect the ML Guarantor's obligations under the ML Guaranties. The ML Guaranties will remain in full force and effect or be reinstated (as the case may be) if at any time any payment guaranteed thereunder, in whole or in part, is rescinded or must otherwise be returned by the Issuer upon the insolvency, bankruptcy or reorganization of MLCI or the Rate Swap Provider, or otherwise, all as though such payment had not been made.

The obligations of the ML Guarantor under the ML Guaranties are unconditional, irrespective of the validity, regularity or enforceability of the Prepaid Contract or the Rate Swaps, or the absence of any action to enforce the same; any waiver or consent by the Issuer concerning any provisions thereof; the rendering of any judgment against MLCI or the Rate Swap Provider, or any action to enforce the same; or any other circumstances that might otherwise constitute a legal or equitable discharge of a guarantor or a defense of a guarantor. The ML Guarantor, pursuant to the ML Guaranties, covenants that the respective ML Guaranties will not be discharged except by complete payment of the amounts payable by MLCI under the Prepaid Contract or by the Rate Swap Provider under the Rate Swaps, respectively.

The ML Guarantor. Merrill Lynch Commodities, Inc. (MLCI) is an indirect subsidiary of Merrill Lynch & Co., Inc. (the ML Guarantor). Merrill Lynch Capital Services Inc. (the Rate Swap Provider) is a subsidiary of Merrill Lynch & Co., Inc. (the ML Guarantor). Set forth below is certain publicly available information with respect to the ML Guarantor. The obligations of MLCI are limited to those set forth in the Prepaid Contract, the obligations of the Rate Swap Provider are limited to those set forth in the Rate Swaps, and the obligations of the ML Guarantor are limited to those set forth in ML Guaranties. **Neither MLCI, nor the Rate Swap Provider nor the ML Guarantor has guaranteed, nor is any responsible for the payment of, the Bonds.** The Issuer makes no representation regarding the creditworthiness of the ML Guarantor, MLCI, or the Rate Swap Provider.

The ML Guarantor is a diversified financial services holding company, which is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the “*SEC*”). For further information concerning MLCI, the Rate Swap Provider, and the ML Guarantor, prospective investors may review the consolidated financial statements of the ML Guarantor and its subsidiaries included in the Annual Report on Form 10 K of Merrill Lynch & Co., Inc. for the fiscal year ended December 30, 2005 and any other documents which are publicly available, including any financial statements of the ML Guarantor and its subsidiaries, that are included therein or attached as exhibits thereto, filed by Merrill Lynch & Co., Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the most recent Annual Report on Form 10-K. Merrill Lynch & Co., Inc. files annual, quarterly and special reports, information statements and other information with the SEC under File No. 001-07182. Copies of Merrill Lynch & Co., Inc.’s SEC filings (including Merrill Lynch & Co., Inc.’s Annual Report on Form 10 K for the fiscal year ended December 30, 2005) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; and (ii) at the SEC’s public reference room in Washington, D.C.

Guaranteed Investment Contract

Prior to the initial delivery of the Bonds, the Issuer will enter into an investment contract (Investment Contract) with DEPFA BANK plc, guarantying fixed rates of interest at which the balance of each of the Debt Service Reserve Fund, the Price Swap Reserve Fund, and the Senior Rate Swap Reserve Fund and monthly deposits to the debt service accounts of the Revenue Fund will be invested pending application for their intended purposes. The senior unsecured long-term debt obligations of DEPFA BANK plc are rated “AA-” by S&P and “Aa3” by Moody’s. The Issuer makes no representation concerning the creditworthiness of DEPFA BANK plc. An independent third party solicited bids for providers of such investment contracts separately for each of such funds and accounts noted above on behalf of the Issuer, and DEPFA BANK plc submitted the bid with the highest interest rate for each of such funds and accounts. The termination date of such Investment Contract is December 15, 2026. The Bond Trustee will have the right to withdraw funds from such Investment Contract prior to termination without penalty or breakage fee when money is required to be applied from such funds, including upon acceleration of the Bonds after any Event of Default and upon mandatory redemption of the Bonds in whole or in part, and upon certain events adversely affecting DEPFA BANK plc, but a breakage fee may be owed in the event of withdrawals, termination, or reduction upon an optional redemption of Bonds. The Issuer has agreed to use reasonable efforts to terminate the Investment Contract or any replacement thereof whenever the rating assigned to the senior unsecured long-term debt of the obligor on the Investment Contract is withdrawn or reduced by S&P or Moody’s below “AA-,” “Aa3,” or “A1/P-1,” respectively, and to replace the Investment Contract with another Investment Contract on substantially the same terms with a provider whose senior long-term unsecured debt is rated at least “AA-,” “Aa3,” or “A1/P-1.”

MUNIGAS COOPERATIVE GAS PURCHASING PROGRAM

Overall Program Description

The Senior Lien Bonds are being issued to finance prepayment of the purchase price for a long-term supply of natural gas for resale in MuniGas’ cooperative municipal gas purchasing program. Under the program, the Issuer (or other instrumentalities created by the Sponsor) will acquire production rights in mineral interests or rights in prepaid gas supply contracts and, unless such gas is purchased at a market center (as under the Prepaid Contract), will contract for the transportation of its natural gas production or purchases to, or exchange of its production or purchases for like volumes of natural gas at, a market center. The Issuer (or such other instrumentalities) will then sell such gas through the Sponsor to MuniGas, which will exchange the gas for natural gas at the Municipal Buyers’ receipt points for resale through the Sponsor, acting as purchasing agent, to the Municipal Buyers. The Issuer (or such other instrumentalities) will also enter into natural

gas commodity price swaps, on terms similar to those as described herein, to convert its expected monthly receipt of natural gas into a predictable cash flow stream to pay its expenses and debt service. The Prepaid Contract will provide the initial supply of gas to be acquired under MuniGas' program.

Prior to the creation of MuniGas, Texas Municipal Gas Corporation (TMGC I) was created by the Sponsor. TMGC I has issued in 1998 and in 2003 an aggregate amount of more than \$400 million in municipal bonds, including both tax-exempt and taxable issuances, and acquired natural gas production rights with such proceeds. As of December 1, 2006, the outstanding principal amount of the bonds issued in 1998 is \$31,705,000 and the outstanding principal amount of the bonds issued in 2003 is \$43,075,000. TMGC I has also transported and exchanged production volumes which were then (and continue to be) sold to participating municipal utilities under both long-term requirements and spot contracts. Certain of MuniGas' board members also serve as board members for TMGC I. TMGC I has been selling gas to municipal utilities at prices that reflect discounts from the prices being offered by their traditional physical suppliers since 2001. MuniGas expects to do the same for the portion of its Municipal Buyers' requirements that cannot be satisfied by production from TMGC I's existing mineral interests. All of TMGC I's buyers have executed Purchase Contracts with MuniGas to meet their excess requirements not currently supplied by TMGC I. As a result, the foundation for the program's future municipal demand will come from Texas, while MuniGas will seek additional municipal utilities, both from Texas and other states, to enter into both long-term and shorter, more flexible spot contracts to purchase gas from MuniGas. In addition to the executed purchase contracts it has received from TMGC I's buyers and other new buyers, MuniGas has received letters of intent from three Texas municipal utilities (see "Schedule 3" herein), to purchase gas from MuniGas under Spot Gas Sales Contracts in amounts which MuniGas anticipates will exceed available gas supplies from the Prepaid Contract. Two of these municipal utilities have previously purchased significant amounts of natural gas from TMGC I (as high as approximately 3,500,000 MMBtus in a single month, and approximately 27,000,000 MMBtus in a single year, when TMGC I had gas supplies available to meet their demands).

Each of the Issuer and MuniGas has engaged the Administrator to manage and administer MuniGas' cooperative gas purchasing program. TMGC I has continuously engaged the Administrator for similar purposes since 1998. Additionally, in order to broaden its ability to locate and contract with qualified Municipal Buyers, MuniGas will enter into brokerage agreements with BP Energy Company and MLCI and may enter into similar agreements with other parties.

In addition to providing current period price discounts for Cooperative Buyers and Spot Buyers, MuniGas also expects to rebate additional amounts (retained from net cash flow) to Cooperative Buyers in the future as cash reserve requirements are reduced or its gas supply contracts and any bonds are retired. MuniGas' ability to realize these expectations is subject to certain risks described herein.

MuniGas' cooperative gas purchasing program is described in more detail below. Certain risks associated with the program are also described under "Investment Considerations" herein. MuniGas' ability to pay the Issuer for gas derived from the Prepaid Contract may depend on MuniGas' observance of certain covenants related to its cooperative gas purchasing program and the identity and performance of Cooperative Buyers and Spot Buyers.

Acquisition of Gas under the Program

Under the Cooperative Contract, MuniGas is obligated to use reasonable efforts to acquire gas scheduled for sale and delivery to Cooperative Buyers, but only if such gas may be acquired and financed on terms and at locations expected to enable MuniGas to maintain a positive discount price for gas sold under the program. MuniGas is obligated to use reasonable efforts to sell and issue bonds as and if required to finance the acquisition of such gas. To perform these obligations, and also to make gas available to meet the expected needs of Spot Buyers from time to time, MuniGas intends and expects to facilitate the creation of affiliated special purpose public non-profit corporations (such as the Issuer) with the Sponsor's approval to acquire mineral interests or prepaid gas supply contracts when, as, and if they become available for purchase on acceptable terms, but MuniGas may also issue debt to acquire mineral interests or contracts directly. For a description of MuniGas' agreement to allocate gas purchased under the Resale Contract preferentially, see "The Transaction Contracts—The Resale Contract—Use in Qualified Service Areas" herein.

Sale of Gas under the Program

General

MuniGas will sell natural gas purchased from the Issuer to Cooperative Buyers under the Cooperative Contract. Cooperative Buyers are expected to include municipalities, municipal utilities, other local governments, and Texas state agencies. Cooperative Buyers become a party to the Cooperative Contract by entering into purchase contracts (each a “Purchase Contract”) with MuniGas and the Sponsor in substantially the form attached to the Cooperative Contract. To the extent of available supply not otherwise committed to Cooperative Buyers, MuniGas intends to sell gas to Spot Buyers. TMGC I and the Administrator have made significant sales to Spot Buyers since 2003. MuniGas also anticipates considerable demand for spot sales, due in part to the practical difficulty that municipal gas and electric utilities have in predicting and committing their daily and monthly gas requirements over multi-year periods.

Under the Cooperative Contract, MuniGas agrees to sell and deliver to the Sponsor, and the Sponsor agrees to sell and deliver to each Cooperative Buyer during the term of its Purchase Contract, the quantities of gas nominated by the Cooperative Buyer for delivery at the location specified in the Cooperative Buyer’s Purchase Contract, but only to the extent of gas actually available to MuniGas for delivery to the Cooperative Buyer under the program after application of the Cooperative Contract’s allocation provisions. Sales and deliveries of gas to and from the Sponsor are required in order to comply with the provisions of the Act, will be arranged by MuniGas, and will occur simultaneously at the same location. All amounts due from Cooperative Buyers to the Sponsor will be paid directly to the MuniGas Trustee for the account of MuniGas. Accordingly, the Sponsor will not be actively involved in the operation of the program.

Each Cooperative Buyer is required to nominate in each year not less than the annual quantity of gas specified in its Purchase Contract or the Cooperative Buyer’s annual requirements, if less, unless it has elected to phase out its participation in the program or is a conditional Cooperative Buyer. If a Cooperative Buyer elects to phase out its participation, it is not required to purchase gas acquired under gas contracts executed, or produced from any mineral interest acquired with proceeds of bonds issued, more than 45 days after its election. A conditional Cooperative Buyer is not required to nominate gas for purchase unless offered on terms at least as favorable as the term on which gas is offered for sale to it by any other supplier. Pursuant to its Purchase Contract, each Cooperative Buyer agrees to purchase all gas nominated by or, if less, allocated to it under the program to the extent of available supply from MuniGas, except that it need not acquire gas financed by tax-exempt bonds unless it commits to do so and may not do so except for qualified uses. No Cooperative Buyer participating in the TMGC I program has ever elected to phase out its participation.

The economic benefits available from the Issuer’s prepaid gas supply transaction are available to qualified Municipal Buyers in Texas as well as in other states. However, if MuniGas acquires, in other transactions, natural gas produced from municipally-owned production rights in Texas which benefit from state and local tax exemptions, MuniGas may sell such natural gas only to Texas local governments and state agencies.

Most existing Cooperative Buyers currently purchase all of their gas requirements pursuant to requirements and/or spot purchase contracts with one or more gas marketing or pipeline companies or other suppliers (each a “Supplier”), directly or through TMGC I. To enter into a Purchase Contract, such Cooperative Buyers must negotiate amendments to their existing supply contracts to reduce their contracted requirements by the quantities of gas that they purchase under the MuniGas program. Cooperative Buyers must continue to rely upon their Suppliers or other sellers of gas to supply the portion of their requirements that they cannot purchase under the program. In order for Cooperative Buyers to receive program gas at their respective receipt points, MuniGas will require Cooperative Buyers to enter into supply contract addenda (and will require Spot Buyers to enter into Spot Gas Sales Contracts) with their Suppliers and the Exchanger/Balancer, on terms described herein. Under such contracts, each Supplier will sell and deliver gas to the Exchanger/Balancer at the respective Municipal Buyers’ receipt point at prices agreed to by the Municipal Buyer and the Supplier. The Exchanger/Balancer will then deliver such gas to MuniGas pursuant to the Exchange and Balancing Agreement (in exchange for gas delivered by MuniGas to it at Henry Hub) for sale by MuniGas to the respective Municipal Buyers. Cooperative Buyers that do not enter into such supply contract addenda or contracts must accept delivery of gas at Henry Hub (and, in such case, the gas will not be delivered to the Exchanger/Balancer under the Exchange and Balancing Agreement).

Committed and Expected Buyers

The initial demand for gas under MuniGas' program will be from municipal utility systems which have executed (or delivered letters of intent to execute) a Purchase Contract to join in the Cooperative Contract or a Spot Gas Sales Contract. While there can be no assurances, MuniGas anticipates that additional qualified demand for gas under the program will develop, in part, because the program does not require the displacement of Municipal Buyers' traditional physical gas suppliers and can accommodate spot sales and other short term sales through the program's exchange and balancing feature. These features may be important to some municipal utility systems, which have legitimate operational or transportation reasons to work with their traditional suppliers, as well as those unable or unwilling to enter into long-term contracts for all of their gas demand. Additionally, MuniGas' approach enables municipal utilities to competitively bid their purchases of gas among potential Suppliers, then use the best base gas price bid together with MuniGas' price discount to obtain the lowest cost gas.

MuniGas believes that there is a large market for qualified buyers of natural gas. According to figures from the American Gas Association and the American Public Gas Association, the demand for natural gas by municipal gas utility systems nationally was approximately 800,000,000 MMBtus in 2005. Although similar statistics for municipal electric utilities are difficult to obtain, MuniGas believes that annual demand for natural gas by municipal electric utilities is substantial. For Texas municipal gas and electric utility systems, MuniGas estimates demand to be approximately 150,000,000 to 170,000,000 MMBtus per year. Demand for natural gas by municipal utility systems will likely vary due to a number of factors, including weather, local economic factors, fuel costs and the availability and cost of alternative fuels. Overall, MuniGas estimates that the scheduled quantities of natural gas being acquired for MuniGas' program represent less than 3% of the total estimated national demand by municipal utilities for natural gas in 2005, and approximately 10% of the total estimated Texas municipal utility demand in 2005.

As shown on the following chart, MuniGas has entered into Purchase Contracts with or received letters of intent to purchase from the following Cooperative Buyers and prospective Spot Buyers for the stated terms, the requirements of which (inclusive of purchases from MuniGas but capped by their maximum annual quantities, if any) are projected by such Cooperative Buyers to be as stated below for the years 2007–2010. The chart also indicates the estimated qualified use requirements of current Cooperative Buyers, the amount of such requirements currently expected to be satisfied by production from TMGC I, and the amount of gas expected to be available for purchase from MuniGas by Spot Buyers. Cooperative Buyers that have contracted with both TMGC I and MuniGas must buy their requirements first from TMGC I and are obligated to buy gas from MuniGas only to the extent that their requirements cannot be supplied by TMGC I. Because Cooperative Buyers are only required to take and pay for their actual qualified requirements, the amount of natural gas available for sale to potential Spot Buyers may be greater or less than the estimated amounts stated below.

The estimated requirements stated below have been tabulated by the Administrator based on estimated requirements provided to the Administrator by the Cooperative Buyers and prospective Spot Buyers. There can be no assurance, and no representation is made, that a Cooperative Buyer's actual qualified annual requirements will total its estimated requirements in each year during its contract term. No Cooperative Buyer is committed to purchase more than its qualified annual requirements under the Cooperative Contract, and no Spot Buyer is committed to purchase any gas under the Spot Contracts.

Any Cooperative Buyer's Purchase Contract will terminate if such Cooperative Buyer disposes of or abandons substantially all of its gas distribution and electric generating facilities and may also be terminated by MuniGas and the Sponsor for cause or by mutual agreement of the parties. MuniGas may terminate a Cooperative Buyer for nonpayment pursuant to the terms of the Cooperative Contract. In addition, MuniGas has agreed in the Exchange and Balancing Agreement not to execute a Purchase Contract with a Cooperative Buyer that forecasts to purchase more than 232,500 MMBtus in any month and not to sell more than 7,500 MMBtus of gas per day to a Spot Buyer, unless such Municipal Buyer's senior unsecured long-term unenhanced debt is rated at least "A-" by S&P or the Municipal Buyer has been approved by the Exchanger/Balancer in accordance with its risk management policies and practices in effect from time to time.

Any Cooperative Buyer may assign its Purchase Contract to another local government or Texas state agency with the approval of MuniGas (which may not be unreasonably withheld) and thereafter be relieved of any further obligation under its Purchase Contract.

SCHEDULE 3: ESTIMATED ANNUAL MUNICIPAL BUYER REQUIREMENTS AND PURCHASES

Cooperative Buyers	Initial	Estimated Annual Requirements (MMBtus)			
	Term Expires ⁽¹⁾	2007	2008	2009	2010
City of Robstown	2025	172,000	173,000	173,500	174,000
City of Del Rio	2025	300,000	300,100	320,000	350,000
City of Denver City	2025	126,500	127,800	129,100	130,400
City of Carrizo Springs	2025	32,022	32,676	33,343	34,023
City of Brady	2025	108,000	108,000	108,000	108,000
City of Tomball	2025	248,000	256,000	268,000	274,000
City of Sunray	2025	109,000	112,000	115,000	120,000
City of Woodville	2025	180,000	185,000	190,000	200,000
City of Perryton	2025	329,000	330,000	330,000	330,000
City of Spearman	2025	139,424	142,212	143,634	145,075
City of Brenham	2025	650,000	650,000	650,000	650,000
City of Dumas	2025	370,670	374,377	378,120	381,902
City of Columbus	2025	73,425	73,425	73,425	73,425
City of Pearsall	2025	62,883	63,449	63,957	64,597
City of Lubbock ⁽²⁾	2025	n/a	n/a	n/a	n/a
City of Plains	2025	45,508	45,963	45,733	45,733
City of Dilley	2025	18,020	18,190	18,360	18,530
City of Navasota	2025	185,300	195,500	204,700	213,000
City of Gruver	2025	53,000	53,000	53,000	53,000
City of Sundown	2025	49,200	50,000	50,000	50,000
City of Boerne	2025	126,500	139,000	153,000	170,000
West Texas Municipal Power Agency ⁽²⁾	2025	n/a	n/a	n/a	n/a
City of Fort Stockton	2025	195,000	195,000	195,000	195,000
City of Greenville	2025	635,000	635,000	635,000	635,000
Bay City Gas Company	2025	290,100	295,902	301,820	307,856
City of Sealy	2025	196,659	198,625	200,611	202,617
City of White Deer	2025	15,975	15,975	20,335	20,335
Estimated Annual Demand of Cooperative Buyers for Qualified Uses		4,711,186	4,770,194	4,853,638	4,946,493
Scheduled Supply from Prepaid Contract		<u>12,840,000</u>	<u>19,124,000</u>	<u>20,888,000</u>	<u>24,106,000</u>
Balance of Prepaid Contract Supply Expected to be Available for Spot Buyers		<u>8,128,814</u>	<u>14,353,806</u>	<u>16,034,362</u>	<u>19,159,507</u>
Estimated Demand from Spot Buyers:					
Estimated Demand from City of Austin ⁽³⁾		18,250,000	18,250,000	18,250,000	18,250,000
Estimated Demand from City of Garland ⁽⁴⁾		4,800,000	4,800,000	4,800,000	4,800,000
Estimated Demand from Lower Colorado River Authority (LCRA) ⁽⁵⁾		<u>6,205,000</u>	<u>6,205,000</u>	<u>6,205,000</u>	<u>6,205,000</u>
Total Estimated Demand from Spot Buyers ⁽⁶⁾		<u>29,255,000</u>	<u>29,255,000</u>	<u>29,255,000</u>	<u>29,255,000</u>
Demand Coverage Ratios:					
Ratio of Estimated Qualified Annual Demand of Cooperative Buyers over Scheduled Supply from the Prepaid Contract		<u>0.37</u>	<u>0.25</u>	<u>0.23</u>	<u>0.21</u>
Ratio of Estimated Qualified Annual Demand of Cooperative Buyers plus Estimated Demand from Austin, Garland and LCRA over Scheduled Supply from the Prepaid Contract		<u>2.65</u>	<u>1.78</u>	<u>1.63</u>	<u>1.42</u>

Notes:

- The terms of each Purchase Contract include an annual evergreen provision which extends the term of the Purchase Contract each year unless the Cooperative Buyer notifies MuniGas of its election not to extend such term. No Cooperative Buyer has ever provided such notification since the inception of the Sponsor's program through TMGC I. Similarly, every Cooperative Buyer from TMGC I has executed a Purchase Contract with MuniGas. These Buyers will receive allocations of gas from the Prepaid Contract upon execution of their Supplier Addendum which is expected prior to initial gas deliveries under the Prepaid Contract.
- Requirements for the City of Lubbock and West Texas Municipal Power Agency are not for Qualified Use and may not be filled with gas purchased under the Prepaid Contract or Resale Contract.
- The City of Austin has executed Spot Gas Sales Contracts with TMGC I. TMGC I's sales to the City of Austin in the highest 12-month period were 23,441,758 MMBtus. The City of Austin has provided MuniGas with a non-binding letter of intent to execute similar contracts with MuniGas and to place orders under such contracts for a significant portion of the remainder of its expected demand for qualified use (approximately 50,000 MMBtu/d adjusted seasonally or 18,250,000 MMBtus per year) after any portion of its qualified demand that the City may commit to an independent prepaid gas supply financing, assuming that MuniGas is able to offer such gas at City receipt points at a discount from otherwise available pricing and that the City does not otherwise commit to purchase any portion of such remainder demand under a long term contract. Based on MuniGas' expected ability to beat otherwise available pricing, MuniGas expects to sell up to the stated quantities of gas to the City each year, to the extent of available supply.
- Represents 60% of estimated total annual demand for gas by the City. The City of Garland has executed Spot Gas Sales Contracts with TMGC I. TMGC I's sales to the City of Garland in the highest 12-month period were 4,174,500 MMBtus. The City of Garland has provided MuniGas with a non-binding letter of intent to execute similar contracts with MuniGas and to place orders under such contracts for Qualified Uses, but in unspecified amounts.
- LCRA has provided MuniGas a non-binding letter of intent to execute a Spot Gas Sales Contract with MuniGas and to place orders under such contract at an average of 17,000 MMBtu/d (6,205,000 MMBtus per year) for Qualified Uses.
- MuniGas expects to enter into additional Purchase Contracts (under the Cooperative Contract) and Spot Gas Sales Contracts with other Municipal Buyers and could sell additional gas under such contracts.

Exchange and Balancing of Gas

In order to take advantage of existing gas supply relationships, to avoid excessive transportation costs associated with delivery of natural gas to the Municipal Buyer's receipt points, and to accommodate seasonal imbalances of supply and demand for natural gas, MuniGas has entered into the Exchange and Balancing Agreement with the Exchanger/Balancer. Under the Exchange and Balancing Agreement, the Exchanger/Balancer will, for fixed compensation payable by MuniGas per MMBtu, (a) exchange the gas acquired by MuniGas at Henry Hub for an equal value of gas to be delivered by the Exchanger/Balancer to MuniGas at the Municipal Buyers' respective receipt points, (b) deliver to or receive from MuniGas a cash deposit to secure any imbalance any variances between the value of monthly deliveries at Henry Hub and the value of monthly deliveries to Municipal Buyers until the imbalance is reversed by deliveries in a future month; and (c) purchase from MuniGas, at the value credited by the Exchanger/Balancer in the month of receipt at Henry Hub, any surplus gas that is not exchanged for gas sold to Municipal Buyers within 24 months, in each case for so long as the Exchange and Balancing Agreement is extended by the parties thereto or replaced on the same terms after its initial 3-year term.

For purposes of the Exchange and Balancing Agreement, the gas delivered by MuniGas at Henry Hub will be valued at the FOM Index for Henry Hub for the month of delivery less a small index differential, except as described herein, and gas delivered by the Exchanger/Balancer to MuniGas at Municipal Buyers' receipt points will be valued at the price at which the Exchanger/Balancer purchases such gas from the Municipal Buyers' Suppliers. The latter price less the prevailing MuniGas price discounts for Cooperative Buyers and Spot Buyers is the price at which MuniGas will sell such gas to Municipal Buyers.

The Exchange and Balancing Agreement recognizes that MuniGas' gas supply is expected to be substantially fixed each month, while Municipal Buyer requirements for gas will vary by seasons to an extent that cannot be precisely predicted. Accordingly, MuniGas may deliver gas to the Exchanger/Balancer as received by MuniGas and may nominate varying amounts of gas for delivery at the Municipal Buyers' receipt points each month, so long as equal values of gas are received and delivered each year. If the values of gas delivered and received by MuniGas in any month differ, either MuniGas or the Exchanger/Balancer must make a non-interest bearing cash deposit with the other in the succeeding month to secure its obligations to cure the imbalance. If the cumulative aggregate value of gas delivered by MuniGas to the Exchanger/Balancer exceeds the cumulative aggregate value of gas delivered by the Exchanger/Balancer to MuniGas and forfeited deposits through any month, and the cumulative imbalance is not reversed within 24 months, then the Exchanger/Balancer will forfeit its cash deposit for the imbalance and the gas delivered to the Exchanger/Balancer that created the imbalance will be deemed to have been sold to the Exchanger/Balancer and not used for a Qualified Use.

The obligations of BP Energy Company as the initial Exchanger/Balancer under the Exchange and Balancing Agreement will be guaranteed by BP Corporation North America Inc. up to an aggregate dollar limit of \$250,000,000.

The Exchange and Balancing Agreement has an initial term of three years, and such term will be automatically extended each year for an additional year unless such extension is rejected by either party at its option. Either MuniGas or the Exchanger/Balancer may terminate the Exchange and Balancing Agreement if the other party does not cure a payment default thereunder (within five days after notice or a non-payment default within 30 days after notice), or fails to cure a material misrepresentation by it within a specified time after notice, or if governmental action makes the party's performance illegal or unduly burdensome. The Exchanger/Balancer may also terminate the Exchange and Balancing Agreement if there is a material adverse change in the business, prospects, or conditions of MuniGas, or an insolvency proceeding in respect of MuniGas is filed, or the security interest granted under the MuniGas Trust Agreement as security for the Exchange and Balancing Agreement is released or subordinated, or an event of default under the MuniGas Trust Agreement occurs. MuniGas may also terminate the Exchange and Balancing Agreement if the credit rating assigned by S&P to the Exchanger/Balancer or any guarantor of its obligations is reduced below "BBB-" or at MuniGas' option either on the occurrence of certain events or payment of a specified sum. If the Exchange and Balancing Agreement is terminated by either party for any reason, then one party may owe to the other the present value of the remaining term of the contract, based on projected deliveries of gas to the Exchanger/Balancer and the extent to which the value agreed to be credited by the Exchanger/Balancer for such deliveries is above or below market pricing.

Each party is obligated to pay Imbalance Charges caused by it and incurred by the other party and to indemnify the other party for certain liabilities caused by it or its property. Except for its obligation to pay Imbalance Charges, fees and

other sums due and to make deposits for and to cure imbalances in the value of gas deliveries, neither party will be liable for failure to perform any obligation under the Exchange and Balancing Agreement, if failure is caused by Force Majeure.

Under the Resale Contract, MuniGas will agree that if the Exchange and Balancing Agreement expires or is terminated by MuniGas, MuniGas will use reasonable efforts to enter into a replacement Exchange and Balancing Agreement and, if it fails to do so, will enter into a replacement Exchange and Balancing Agreement with any person on written request by MLCI (as the seller under the Prepaid Contract) on substantially the same terms as the expiring or terminating Exchange and Balancing Agreement, provided that the long-term senior unsecured unenhanced debt obligations of such person are rated at least “A1” by Moody’s and “A+” by S&P.

All Municipal Buyers (including Cooperative Buyers and Spot Buyers) that participate in MuniGas’ program will either (1) have in place an agreement with their Suppliers to sell gas to the Exchanger/Balancer at the Municipal Buyers’ respective receipt points or (2) accept delivery of gas sold to MuniGas under the Resale Contract at Henry Hub or another place acceptable to MuniGas (and in the latter case, such gas will not be delivered to the Exchanger/Balancer under the Exchange and Balancing Agreement).

Allocation of Gas

If MuniGas’ program gas demand exceeds program gas supply in any month, MuniGas will deliver gas to Cooperative Buyers or to the Exchanger/Balancer for their account pursuant to the Exchange and Balancing Agreement in accordance with priority and allocation protocols contained in the Cooperative Contract. The protocols give first priority to the requirements of MuniGas’ current Cooperative Buyers that were Cooperative Buyers of TMGC I, and second to new Cooperative Buyers that execute Purchase Contracts with MuniGas. For allocation purposes only, a Cooperative Buyer’s monthly demand is deemed to be the quantity of gas that must be delivered to the Exchanger/Balancer in each month to entitle MuniGas to receive quantities of gas equal to the Cooperative Buyer’s expected demand in each month at its delivery point. Sales to Spot Buyers will be made only to the degree of available excess supply after the requirements of Cooperative Buyers are met.

If one or more additional Cooperative Buyers do not join MuniGas’ program or annual program gas supply otherwise exceeds Cooperative Buyer demand, MuniGas must attempt to market excess gas to other qualified buyers and, if sufficient governmental buyers are unavailable, to sell any surplus gas supply to non-governmental buyers. Pursuant to separate brokerage agreements, MLCI and BP Energy Company will be compensated for inducing qualified buyers to execute Purchase Contracts or place orders under Spot Gas Sales Contracts, and BP Energy Company will be obligated pursuant to its brokerage agreement (upon request of MuniGas) to use reasonable efforts to locate such buyers. If due to inadequate sales of gas to Municipal Buyers or otherwise, the Issuer no longer expects to sell at least 90% of all gas purchased and to be purchased under the Prepaid Contract for Qualified Uses, or no longer expects that less than 5% or \$15,000,000 of such gas will be used for Private Business Use, then the Issuer must redeem Senior Lien Bonds. See “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Extraordinary Mandatory Redemption—Remedial Action Redemption” herein.

Pricing and Buyer Discounts

Under the Cooperative Contract and Spot Gas Sales Contracts, Municipal Buyers are obligated to pay for all gas sold and delivered to them under MuniGas’ program at a price equal to the price charged by their Suppliers less a price discount to be determined by MuniGas from time to time (in accordance with the terms of the Cooperative Contract, in the case of Cooperative Buyers).

The annual quantities specified in a Purchase Contract may be adjusted by agreement of the affected Cooperative Buyer and MuniGas. In addition, any Cooperative Buyer’s Supplier may change during the term of its Purchase Contract. If it does and the Cooperative Buyer’s new Supplier does not enter into a supply contract addendum with the Cooperative Buyer and the Exchanger/Balancer to enable the Cooperative Buyer to benefit from the Exchange and Balancing Agreement, the Cooperative Buyer’s base price and place of receipt of MuniGas’ program gas will change to the value and market center at which gas is delivered by MuniGas under the Exchange and Balancing Agreement.

Under the Cooperative Contract, MuniGas is required to set and adjust the Cooperative Buyer price discount from time to time at the greatest amount per MMBtu that will, in MuniGas' judgment, still enable MuniGas to collect adequate revenue to pay, or to establish required or prudent reserves for, all anticipated operating or program expenses of MuniGas, including amounts owed under the Resale Contract, other gas purchase contracts, and debt service on any bonds issued by MuniGas.

To the degree of available supply, MuniGas intends to make sales to Spot Buyers after meeting the requirements of Cooperative Buyers. MuniGas intends to make spot sales at lesser price discounts (from their Supplier's price for such gas) than those available to Cooperative Buyers. Any surplus gas that is not exchanged for gas sold to a Municipal Buyer within 24 months will be sold by MuniGas to the Exchanger/Balancer under the terms of the Exchange and Balancing Agreement without any discount in price.

Under the Cooperative Contract, MuniGas is required to review its cash reserves held under the MuniGas Trust Agreement at least annually. If MuniGas determines that its reserves exceed amounts that are prudent to maintain for future program expenses or to apply to retire bonds, MuniGas is required to rebate excess cash reserves to Cooperative Buyers according to a formula set forth in the Cooperative Contract, subject to limitations imposed by the MuniGas Trust Agreement.

Limited Recourse Obligations

The obligations of MuniGas under the Resale Contract, the Exchange and Balancing Agreement, the Cooperative Contract and associated Purchase Contracts with Cooperative Buyers, and the Spot Gas Sales Contracts with Spot Buyers will be performable by MuniGas solely from and to the extent of the revenues and funds pledged under the MuniGas Trust Agreement and any similar security agreements entered into in the future. The obligations of the Sponsor under such contracts are performable by it solely from and to the extent of gas delivered through it, the purchase price for such gas paid to the MuniGas Trustee for its account, and any other funds paid to it by other parties under the program. The obligations of Cooperative Buyers under such contracts (and the purchase obligations of Spot Buyers) will be payable solely from the current revenues of their respective gas and electric utility systems or from other funds appropriated for that purpose. The obligations of MuniGas, the Sponsor, and the Municipal Buyers are also subject to valid laws and regulations and may be excused during events of force majeure, which in general are events beyond the reasonable control of the contracting parties.

Financial Management

Billing and Collecting

Under the Cooperative Contract, MuniGas is required to invoice the Cooperative Buyers for gas delivered to the Cooperative Buyers on or before the fifth business day of the month following delivery. The Cooperative Buyers are required to pay the invoices on or before the 20th day of such month (or, if later, 10 days after receipt of the invoice or as agreed in the Purchase Contract) by delivering immediately available funds to the MuniGas Trustee for deposit under the MuniGas Trust Agreement. MuniGas expects to establish substantially the same billing and payment terms for Spot Buyers. MuniGas may, but is not expected to, offer price discounts for early payments. If a Cooperative Buyer fails to pay any invoice when due, the unpaid amount will accrue interest at the prime commercial lending rate up to the maximum rate permitted by law. MuniGas may suspend deliveries of gas to enforce timely payment of invoices. Municipal Buyers and the Sponsor agree to waive any rights of set-off, recoupment, counterclaim, and abatement in making payments under the Cooperative Contract.

MuniGas has contracted or will seek to contract with all Cooperative Buyers and Spot Buyers now served by TMGC I, among others, although there can be no assurance that it will be successful in doing so. The following table reflects TMGC I's collection experience with such Cooperative Buyers and Spot Buyers:

SCHEDULE 4: TMGC I COLLECTION EXPERIENCE

<u>Year</u>	<u>Number of Billings</u>	<u>Amount of Billings (Dollars)</u>	<u>Late Payments ⁽¹⁾</u>	
			<u>(Dollars)</u>	<u>(% of Total)</u>
2001	34	\$ 5,020,034	\$0.00	0.0%
2002	91	9,401,528	\$0.00	0.0%
2003	136	16,181,043	\$0.00	0.0%
2004	225	150,776,325	\$0.00	0.0%
2005	273	226,575,533	\$0.00	0.0%
2006 ⁽²⁾	220	85,374,078 ⁽³⁾	\$0.00	0.0%

⁽¹⁾ Not paid by end of month after month of gas delivery.

⁽²⁾ Includes all gas sales through October 31, 2006.

⁽³⁾ The amount of billings for 2006 are less than in previous years due to (a) a partial year amount, (b) declining production volumes under TMGC I's existing production payments and overriding royalty, and (c) the timing effects of TMGC I's balancing feature under its exchange and balancing agreement with the TMGC I exchanger/balancer.

MuniGas has contracted with the Administrator to provide for monitoring and billing services associated with the Cooperative Contract, the Spot Contracts, and the Exchange and Balancing Agreement. See “—Program Administration and Management” below. Under the Exchange and Balancing Agreement, the Exchanger/Balancer will be obligated to establish and operate a management information system that will track MuniGas' gas purchases as well as its balancing and exchange balances and deliveries.

Under the MuniGas Trust Agreement, MuniGas is obligated to apply trustee funds to pay MuniGas' program expenses when due, including payments to the Issuer for gas sold and delivered under the Resale Contract. Under that agreement, payments for such sales must be made in immediately available funds directly to the Bond Trustee, for deposit under the Indenture, by the last business day of the following month.

Budgeting

Under the Indenture, the Issuer is required to submit a budget to the Bond Trustee upon the issuance of the Senior Lien Bonds and periodically thereafter. The Indenture requires that a budget must be submitted (1) within four months after the close of each fiscal year of the Issuer, (2) within 30 days after any failure to make a required application of money in the Revenue Fund, (3) within 15 days after each increase of the discount at which gas is sold to MuniGas under the Resale Contract, (4) upon execution of each Reserve Loan (if any) under the Indenture, and (5) upon each redemption of Senior Lien Bonds as described under “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Extraordinary Mandatory Redemption—Remedial Action Redemption” and “—Reserve Deficiency Redemption.”

Each budget is required to project all monthly receipts of Issuer program revenues and all monthly payments or accruals of expenditures of funds held or required to be held by the Bond Trustee (excluding amounts required to be held for the credit of the Program Fund), that are reasonably expected by the Issuer through the expected final maturity of the Bonds then outstanding. Each program budget must include monthly projections for the following:

Revenue: receipt of gas equal to the amount required to be delivered by MLCI under the Prepaid Contract (other than pursuant to termination in whole or part), and the gross proceeds from the sale of such gas at the discount then in effect or projected under the Resale Contract, less payments to be made (plus payments to be received) by the Issuer under the Price Swap,

Investment Income: the income to be earned from the investment of funds credited to the Revenue Fund, the Debt Service Reserve Fund, the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund, and the Subordinate Rate Swap Reserve Fund, computed at (1) the rate of interest borne by Eligible Investments in which such funds are then invested (assuming no change in then current indices) for the term of such Eligible Investments and (2) for all periods subsequent to the term of such Eligible Investments, 2% per annum,

Transfers of Surplus Reserves: all transfers of funds from the Debt Service Reserve Fund, the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund, and the Subordinate Rate Swap Reserve Fund to pay subordinate or deferred expenses,

Operating Expense: Operating Expense, as estimated by the Administrator, excluding Operating Expense payable from funds transferred from the Start-Up Account,

Program Operating Expenses: Program Expenses, as estimated by the Administrator, excluding Program Expenses that are payable from funds transferred from the Start-Up Account,

Debt Service: the (1) interest to accrue on the Outstanding Bonds, less (a) payments to be received (plus payments to be made) by the Issuer pursuant to the Rate Swaps (other than on account of a redemption of the Index Rate Bonds at the option of the Issuer) and (b) the amounts transferred from the Start-Up Account to pay such interest, and (2) deposits to be made to the respective Principal Accounts to pay or redeem Outstanding Bonds, and

Discount: the aggregate amount of such discount, computed at the discount then in effect,

Transfers: the amounts to be transferred to the Debt Service Reserve Fund, Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund, and the Subordinate Rate Swap Reserve Fund and credited to the Surplus Account.

Under the MuniGas Trust Agreement, MuniGas has agreed to prepare a budget with substantially the same frequency and also when acquiring mineral interests or entering into any new gas supply contract.

Actual gas prices, investment income, and operating and program expenses could differ from assumed levels. The Issuer expects that, as a result of the Price Swap, it will receive substantially scheduled net revenues from its sale of gas purchased under the Prepaid Contract for the term of the Senior Lien Bonds. Actual revenues received by the Issuer will depend upon performance by MLCI, the Price Swap Provider, MuniGas and others of their contractual obligations to the Issuer. Actual operating and program expenses will depend on market rates for services that are not provided under fixed price contracts that extend for the term of the Senior Lien Bonds and counterparty compliance with contracts for service. If actual expense rates for services not under fixed price contracts increase faster than projected expense rates, program expenses could exceed budgeted expenses without any corresponding increase in program revenue. Although the payment of unbudgeted increases in Issuer program expenses is subordinated to the payment of debt service on the Senior Lien Bonds, such expenses may nevertheless need to be paid to maintain gas sale revenue. For these reasons and others, actual program financial results may differ from budgeted results, and the differences could be material.

Rate Covenants

Under the Indenture, the Issuer has agreed to review, on a monthly basis, the price discount at which gas is sold to MuniGas under the Resale Contract, and to reduce such discount from time to time and to the extent required to budget and receive sufficient revenues from the sale of gas purchased under the Prepaid Contract (other than as a result of termination in whole or part) to pay principal of and interest on the Bonds, any Reserve Loans, and the net amounts payable by the Issuer under the Price Swap and the Rate Swaps when due and to make all required deposits to Indenture funds and accounts other than principal, payments, and deposits due on account of termination of the Prepaid Contract in whole or part.

Under the MuniGas Trust Agreement, MuniGas has agreed to reduce the price discount it offers to Cooperative Buyers, as and when necessary to maintain, in each three-month period ending March 31, June 30, September 30, or December 31, a ratio of (1) program revenues and other amounts credited to its revenue fund under the MuniGas Trust Agreement (excluding money transferred from the operating reserve fund thereunder), less all amounts credited to the operating expense account and the program expense account thereunder (with certain exclusions) in such three-month period, plus the balance of the surplus account thereunder on the first business day of such three-month period, to (2) the sum of all amounts required to be credited to the gas acquisition account thereunder in such three-month period, of not less than 1.0.

Release of Surplus

On the last business day of each calendar month, any balance remaining in the Revenue Fund and not otherwise credited to any other account therein is to be transferred to the Surplus Account of the Revenue Fund. If no Default or Event of Default then exists, the Bond Trustee must apply money credited to the Surplus Account on Issuer Order on the last business day of each calendar month, to transfer money to MuniGas pursuant to the Resale Contract or to any other corporate instrumentality created with approval of the Sponsor for the same or substantially similar purposes as the purposes for which the Issuer was created.

The MuniGas Trust Agreement

To secure its payment obligations to the Issuer under the Resale Contract and to secure its obligations to various other parties under the other MuniGas' program documents (including the Exchange and Balancing Agreement, the Cooperative Contract, the Spot Gas Sales Contracts, its Program Administration Agreement, and its Gas Management Agreement), MuniGas will enter into the MuniGas Trust Agreement. Under the MuniGas Trust Agreement, MuniGas will assign to the MuniGas Trustee its rights in and to (1) the Resale Contract (and any other gas supply contract hereafter entered into by it), (2) the Exchange and Balancing Agreement, (3) the Cooperative Contract and all other contracts for the sale of natural gas by MuniGas, (4) its Program Administration Agreement and Gas Management Agreement with the Administrator, (5) all guaranties and proceeds of and rights to enforce the foregoing, and (6) all money, instruments, securities, and investments and obligations required to be deposited with the MuniGas Trustee under the MuniGas Trust Agreement (collectively, the "*MuniGas Trust Estate*").

The lien on the MuniGas Trust Estate securing MuniGas' obligations to the Issuer under the Resale Contract is subordinate to the lien securing payment of Senior Operating and Program Expenses of MuniGas, including the fees and expenses payable to the MuniGas Trustee and the Sponsor and non-subordinated fees and expenses payable to the Administrator. In addition, the lien on the MuniGas Trust Estate securing MuniGas' obligations to the Issuer under the Resale Contract will be on parity with the lien securing MuniGas' obligations under any other contract providing for the acquisition by MuniGas of natural gas for sale to Municipal Buyers.

Money held by the MuniGas Trustee in the surplus account under the MuniGas Trust Agreement may be released by the MuniGas Trustee, on the order of MuniGas, to Municipal Buyers in the form of patronage rebates or to any corporate instrumentality created with approval of the Sponsor for the same or substantially similar purposes as that for which MuniGas was created if the operating reserve fund created thereunder contains a balance at least equal to its required reserve, no event of default exists under the MuniGas Trust Agreement, and the most recent program budget delivered to the MuniGas Trustee satisfies the requirements of the MuniGas Trust Agreement.

Program Administration and Management

The Issuer and MuniGas have contracted, and intend to contract, for all services required to initiate and operate their cooperative municipal gas purchasing program.

Program Administration and Gas Management Agreements

MuniGas and the Issuer have entered into respective Program Administration Agreements with Municipal Energy Resources Partners, Ltd., the Administrator, under which the Administrator has assumed general responsibility for designing, structuring, developing, and supervising MuniGas' and the Issuer's cooperative municipal gas purchasing program, including the negotiation of necessary contracts, coordinating the duties and activities of outside professionals for the purpose of identifying, evaluating, and purchasing mineral interests, including the Prepaid Contract, and providing the services of its general partner's president as executive director of MuniGas and the Issuer. Under the Program Administration Agreements, the Administrator has also assumed responsibility for maintaining program accounting and collection systems, preparing program budgets, recommending price discounts, monitoring compliance with covenants, and recommending any discretionary redemptions of bonds.

MuniGas and the Issuer have also entered into respective Gas Management Agreements with the Administrator, under which the Administrator has agreed to supervise gas sales and logistics management services to provide for marketing

and transportation of gas attributable to acquired mineral interests, gas supply contracts and related transactions, and invoicing of related gas sales.

In consideration of the Administrator's services under its respective agreements, some services of which have been provided by the Administrator over the past two years without current compensation, the Issuer has agreed to pay to the Administrator, from and to the extent of bond proceeds, a program structuring and development fee equal to 0.50% times the principal amount of the Bonds, payable at closing. The Issuer has also agreed to pay the Administrator base ongoing program administration and gas management fees (to the degree the gas management agreement is extended beyond the initial three-year term) of \$125,000 and \$6,723 per month, respectively. The Administrator has agreed to subordinate 60% of these fees to the payment of debt service requirements. The base fees noted above will be subject to adjustments for changes in the Consumer Price Index beginning January, 2009. Any increases in these fees resulting from such adjustment will be subordinate to scheduled debt service requirements. Furthermore, the Administrator has also agreed to reduce its subordinated program administration fee proportionately following any redemption of Senior Lien Bonds as described under "The Senior Lien Bonds—Redemption of Senior Lien Bonds—Extraordinary Mandatory Redemption—Remedial Action Redemption" herein.

MuniGas has agreed to pay the Administrator, in consideration of the Administrator's services to MuniGas, some services of which have been provided by the Administrator over the past three years without current compensation, a deferred subordinate structuring and development fee equal to 0.15% of the original principal amount of the Bonds issued by the Issuer. This fee is payable upon payment by the Issuer to MuniGas from available funds. MuniGas has also agreed to pay the Administrator a base ongoing program administration fee of \$122,500 per month in respect of gas purchased under the Resale Contract and a gas management fee (to the degree the gas management agreement is extended beyond the initial three year term) of \$0.035 per MMBtu of gas delivered under the Prepaid Contract (expected to average \$73,531 per month in respect of the gas purchased under the Prepaid Contract). The Administrator has agreed to subordinate 60% of these fees to the payment of senior obligations of MuniGas related to gas purchases, including its payment obligations under the Resale Contract, through the term of the Resale Contract. The base fees noted above will be subject to adjustments for changes in the Consumer Price Index beginning January, 2009. Any increases in these fees resulting from such adjustment will be subordinate to senior obligations of MuniGas related to the gas purchases.

The Issuer and MuniGas have agreed to reimburse the Administrator for all reasonable out-of-pocket expenses incurred by the Administrator, including payments for legal, accounting, auditing and courier services and travel. Additionally, the Issuer and MuniGas may pay the Administrator expenses associated with the provision of extraordinary services. The Administrator may elect to defer the receipt of any portion of its fees.

Under the Exchange and Balancing Agreement, the Exchanger/Balancer has agreed to make pipeline nominations, to recommend optimal transportation arrangements, and to maintain a management information system to account for sales and deliveries of gas, and MuniGas has agreed to pay a gas management fee equal to fixed charges per MMBtu of gas delivered by the Issuer to the Exchanger/Balancer (or excluded from such deliveries) at Henry Hub and any other index delivery point.

The Program Administration Agreements extend to or beyond the term of the Senior Lien Bonds, but the Gas Management Agreements and Exchange and Balancing Agreement extend only for three years. The latter agreements may be terminated at the option of the Issuer after two years, and all such agreements may be terminated for cause or as otherwise described herein. See "—Exchange and Balancing of Gas" and "—Financial Management" herein.

The Administrator

Municipal Energy Resources Partners, Ltd., which has been engaged to act as the Administrator, is a Texas limited partnership organized in 1996 for the purpose of developing and administering cooperative municipal gas purchasing programs. The Administrator acts through its general partner, Municipal Energy Resources Corporation ("MERC"). MERC is a privately held Texas corporation also organized in 1996 to develop and administer such programs. Neither the Administrator nor MERC is limited in the other business activities that it may pursue. The Administrator also serves as Administrator of the TMGC I program. The principal officers of MERC collectively have financial, management, and oil and gas experience required to develop and administer the program, as described below.

Robert D. Murphy, Jr., 55, is President and Chief Executive Officer of MERC and will manage all duties of the Administrator. Prior to founding MERC in 1996, Mr. Murphy was a Managing Director of Rauscher Pierce Refsnes, Inc. (a predecessor of RBC Dain Rauscher Inc.), where he was employed since 1990. While with Rauscher Pierce Refsnes, Inc., Mr. Murphy was a leader of the firm's structured finance practice, chairman of its Public Finance New Products Committee, and a co-manager of the Houston Public Finance Division. Mr. Murphy previously held management roles with two other large regional investment banking firms, including membership on their boards of directors. In addition, Mr. Murphy was employed as a management consultant for 10 years with Touche, Ross & Co., where he served numerous oil and gas clients by providing advice concerning oil and gas management and accounting systems, property acquisitions, and finance. Mr. Murphy is a certified public accountant. He holds a B.S. degree from the University of New Orleans and an M.B.A. degree from Tulane University. Mr. Murphy serves as Executive Director of the Issuer, MuniGas and TMGC I.

N. Brannon Mensing, 60, is Senior Vice President and Treasurer of MERC. He is responsible for managing and directing MERC's financial and analytic approaches to acquisitions and financings, related agreements and compliance. Mr. Mensing is also responsible for coordination of the activities of outside engineering professionals. Mr. Mensing has over 35 years of banking and energy experience. He was previously a Managing Director with Societe Generale for over 20 years, where he was involved in a wide range of financings for the energy industry, including establishing and Group Head of the USA Project Finance Department. Prior to that, he was a Vice President at Chemical Bank, and before that a Staff Reservoir Engineer with Shell Oil. Mr. Mensing is a registered Professional Engineer (Petroleum) and holds a B.S. degree in Mining Engineering from the University of Alabama and an M.B.A. degree from the University of Houston.

Tony W. Allison, 51, is Senior Vice President of MERC. He is responsible for all municipal marketing activities of the Administrator for the program. Mr. Allison has over 25 years of business and management experience in the energy industry including P&L and staff responsibilities. Mr. Allison was employed at Tenneco Energy from 1977 to 1995, where he worked in the exploration and production, pipeline transmission, and gas marketing business units. Mr. Allison helped Tenneco form its initial gas marketing endeavor, Tenngasco Corporation, in 1984. During Mr. Allison's 18 years at Tenneco, he directed large functions in both financial and commercial capacities, including accounting, planning, gas supply, operations and marketing. Subsequent to leaving Tenneco, Mr. Allison held the positions of Assistant Controller, Director of Gas and Customer Service, and Director of Business Planning and Process Control. Prior to joining MERC, Mr. Allison was Account Director for a full service human resource consulting and training firm from 1996 to 1998. Mr. Allison is a certified public accountant in Texas. He holds a B.S. degree in accounting from Southwest Missouri State University and an M.B.A. degree from the University of Houston.

Barry L. Cromeans, 55, is Vice President and Controller of MERC. He has overall responsibility for financial and management reporting, systems and administration for the Administrator. Mr. Cromeans began his career at Gulf Oil Corporation in 1974 in corporate accounting and moved to the international exploration and production area in 1979. After several years in international, Mr. Cromeans moved to the domestic oil and gas industry, where he was instrumental in the purchase and sale of several independent oil and gas companies. Having been in senior level accounting positions since 1990, with both publicly and privately held companies, he has extensive expertise in accounting management, control, reporting, budgeting, and systems design. Mr. Cromeans holds a B.S. degree from Robert Morris College and is a certified public accountant in Texas.

Michael J. Pinion, 31, is Vice President of MERC. He provides financial and structuring support required to manage the analytic approaches to acquisitions and financings for which MERC acts as administrator. After working as a design engineer in the gas processing industry, Mr. Pinion served as a financial consultant for several large midstream companies where he was responsible for financial and accounting systems development. Prior to joining MERC, Mr. Pinion held roles evaluating acquisitions and structuring transactions in the midstream and electric power industries, and in corporate development for a venture capital stage company. Mr. Pinion holds a B.S. degree in Mechanical Engineering from Southern Methodist University and an M.B.A. with a concentration in Finance from the University of Texas in Austin.

Justin I. Loweth, 28, is Vice President of MERC. He provides financial and structuring support required to manage the analytic approaches to acquisitions and financings for which MERC acts as administrator. Prior to joining MERC, Mr. Loweth was a Vice President of Harrison Lovegrove where his responsibilities included marketing, transaction execution and valuation work for oil and gas companies. During his tenure at Harrison Lovegrove Mr. Loweth was involved

in numerous oil and gas acquisition and divestiture transactions throughout North and South America, the Middle East, West Africa and China. Prior to that, Mr. Loweth worked in the Energy Investment Banking group of Credit Suisse First Boston advising on public equity and debt securities underwritings and financial advisory assignments, including mergers, acquisitions and divestitures. Mr. Loweth holds a B.B.A. degree in Finance and Real Estate Finance from Southern Methodist University.

Barbara A. Whitton, 44, is Assistant Controller of MERC. She is responsible for financial reporting, related management reporting, and gas control. Ms. Whitton has over 20 years of experience working in the energy industry for small-to mid-sized producers, primarily in the areas of gas accounting, gas marketing, gas transportation, and administration. Prior to joining MERC, Ms. Whitton was Vice President of Marketing and Administration for PANACO, Inc., where she was responsible for transporting, processing, and marketing all crude oil, natural gas, and liquids produced by the company, and she was involved in maintaining and directing all of the administrative functions of the company. Ms. Whitton holds a B.B.A. degree in Management and an M.B.A. with a concentration in Finance from Our Lady of the Lake University in San Antonio.

INVESTMENT CONSIDERATIONS

The purchase of the Senior Lien Bonds involves certain investment considerations discussed throughout this Official Statement. Prospective purchasers of the Senior Lien Bonds should make a decision to purchase the Senior Lien Bonds only after reviewing the entire Official Statement and making an independent evaluation of the information contained herein. Certain of those investment considerations are summarized below. This summary does not purport to be complete, and the order in which the following investment considerations are presented is not intended to reflect their relative significance.

Special and Limited Obligations

The Senior Lien Bonds are special limited obligations of the Issuer and are payable solely from and secured solely by the Trust Estate pledged pursuant to the Indenture. The Trust Estate includes only the revenues, funds and rights described herein, and does not include any other revenues or assets of the Issuer. The Senior Lien Bonds are not general obligations of the Issuer, and the Issuer has no taxing power.

Only the Issuer is obligated to pay the Senior Lien Bonds. None of the Municipal Buyers is obligated to pay the Senior Lien Bonds. The Municipal Buyers are obligated only to purchase and pay for gas tendered for delivery by MuniGas at market-based prices, to the extent that they have contracted with MuniGas to do so. None of MuniGas, MLCI, the ML Guarantor, the Price Swap Provider, the Rate Swap Provider, and the Exchanger/Balancer is obligated to pay the Senior Lien Bonds, and none of them has guaranteed the Senior Lien Bonds.

Performance by Others

The Prepaid Contract, the Cooperative Contract, the Resale Contract, the Exchange and Balancing Agreement, the Price Swap, the Rate Swaps, the Indenture, the Senior Lien Bonds and related agreements have been structured so that, assuming timely performance and payment by MLCI, MuniGas (and its Municipal Buyers and the Exchanger/Balancer), the Price Swap Provider, the Rate Swap Provider, and other parties of their respective obligations, the revenues available to the Issuer from the sale of gas acquired under the Prepaid Contract, together with the amounts required by the Indenture to be on deposit in certain funds and accounts held by the Bond Trustee and any net payments received from the Price Swap Provider or the Rate Swap Provider, will be sufficient to provide for the timely payment of the scheduled debt service requirements on the Senior Lien Bonds and operating expenses, including any net payments to the Price Swap Provider and/or the Rate Swap Provider and assuming limited increases in operating expenses that have not been fixed for the term of the Senior Lien Bonds.

The ability of the Issuer to pay timely the scheduled debt service on the Senior Lien Bonds depends on the timely performance and payment by third parties, including MuniGas, the Price Swap Provider, MLCI and the Rate Swap Provider or the ML Guarantor of their obligations under the contracts described herein. The ability of MuniGas to pay for gas sold to it under the Resale Contract depends on timely payment and performance by Municipal Buyers under their gas purchase

contracts with MuniGas and the Exchanger/Balancer under the Exchange and Balancing Agreement. The failure by any one or more of such parties to meet such obligations could materially and adversely affect the ability of the Issuer to pay timely the scheduled debt service on the Senior Lien Bonds.

In particular, the ability of the Issuer to pay the Senior Lien Bonds, including upon early redemption, will depend upon the delivery of gas by MLCI as scheduled, or payment by MLCI or the ML Guarantor for gas not delivered, or, upon early termination or reduction, the payment by MLCI or the ML Guarantor of the amount payable in that event as well as payment by the Rate Swap Provider or the ML Guarantor of their obligations under the Senior Rate Swap in periods of higher interest rates. No assurance can be given that the future financial position of MLCI, the Rate Swap Provider or the ML Guarantor will enable it to make such deliveries or payments in a timely manner. Any delay in delivery or payment by MLCI or in payment by the Rate Swap Provider or Price Swap Provider could cause a delay or default in payments of principal and interest due on the Senior Lien Bonds. For further information concerning MLCI, the Rate Swap Provider, and the ML Guarantor, prospective investors may review the information described herein under “The Transaction Contracts—The ML Guaranties—The ML Guarantor.”

Terminability of Contracts

Each of the contracts on which the Issuer must rely to receive sufficient net revenue to pay the Bonds may be terminated by another party to the contract in the event of certain Issuer defaults or in some cases, defaults by (or deterioration in the condition of) others. When permitted by such contracts, the Issuer may terminate such a contract in the event of a default by or deterioration of the financial condition of another party to the contract. In addition, the Exchange and Balancing Agreement and Gas Management Agreements with the Issuer and MuniGas extend for only three years. The Issuer and MuniGas may not be able to extend or replace an expiring or terminated contract on the same terms or at all. If any contract is extended or replaced at higher costs or otherwise on worse terms, the Issuer’s ability to pay the Bonds may be adversely affected.

Some of the contracts on which the Issuer must rely to receive sufficient revenue to pay the Bonds, including the Prepaid Contract and the ML Guaranties, may not be terminated by the Issuer until the other party defaults. In that event, the Issuer may be unable to avoid a default by taking pre-emptive action.

Extraordinary Mandatory Redemption of Senior Lien Bonds

Under circumstances described under “The Senior Lien Bonds—Redemption of Senior Lien Bonds—Extraordinary Mandatory Redemption” and below, Senior Lien Bonds may be redeemed at their Amortized Value or 100% of principal amount, regardless of the current value of such Bonds or prevailing reinvestment rates. In that event, owners of Senior Lien Bonds may incur an accounting and economic loss, even if the redemption price is paid in full.

Under various circumstances, MLCI (as the supplier under the Prepaid Contract) has the ability but not the obligation to take certain actions to prevent a reduction of the Prepaid Contract (and a corresponding extraordinary redemption of the Senior Lien Bonds). Those actions could include proactive marketing of the gas to qualified buyers and/or extending one or more Reserve Loans to replenish the Debt Service Reserve Fund, Price Swap Reserve Fund, or Senior Rate Swap Reserve Fund. Such actions by MLCI may be adverse to the interests of Holders of Bonds in certain circumstances, particularly in a higher interest rate environment.

Dependence on Qualified Demand for Gas

The Senior Lien Bonds are subject to extraordinary mandatory redemption, in whole or in part, on the first Business Day of a month within 90 days after each date on which the Issuer no longer reasonably expects that at least 90% of the gas purchased and to be purchased under the Prepaid Contract will be used for a Qualified Use, or no longer expects that less than 5% or \$15,000,000 of such gas will be used for Private Business Use. Only a limited amount of such gas has been committed to be purchased for Qualified Use, and the remaining available gas will have to be sold in the spot market. MuniGas has entered into a Gas Management Agreement with the Administrator to assist it in selling gas for Qualified Uses by seeking prospective Municipal Buyers to enter into Purchase Contracts and to make spot purchases, but there can be no assurance that the agreement will be extended or replaced after its initial three-year term or that the Administrator will be

successful in its marketing efforts. MuniGas has entered into separate brokerage agreements with MLCI and BP Energy Company, pursuant to which BP Energy Company (but not MLCI) has agreed (upon the request of MuniGas) to use reasonable efforts to locate Municipal Buyers for Qualified Use, and each will be compensated for resulting sales; however, there can be no assurance that either BP Energy Company or MLCI will be successful in doing so.

Existing and prospective Municipal Buyers and potential Municipal Buyers may have the opportunity and may elect to participate in other prepaid gas financing programs that would have the effect of competing with sales of gas by MuniGas. Competing programs may be structured in ways or established under conditions that enable them to offer greater discounts in gas prices than the discounts available under the MuniGas program. Based upon its review of prepaid gas financings carried out in the United States to date, the Issuer believes that competing programs will address baseload demands of large municipal gas purchasers, and that the MuniGas program will offer greater flexibility (as to terms and magnitude of gas sales and availability to smaller purchasers) than will be offered under such competing programs. The Administrator estimates that gas purchased by MuniGas under the Resale Contract will provide only approximately 10% of the total municipal utility demand for gas in Texas, and sales are not limited to Texas municipalities. The Issuer believes the market for municipal gas purchases is so large that the MuniGas program would not be affected by competing programs unless such programs were implemented in extraordinary magnitude and offered flexibility similar to the MuniGas program. Nevertheless, insufficient qualified municipal utility demand could occur and result in the extraordinary mandatory redemption of the Senior Lien Bonds.

There can be no guarantee that MuniGas will be able to sell sufficient gas purchased under the Prepaid Contract for Qualified Uses to avoid redemptions of Senior Lien Bonds, and the extent of redemptions could be substantial.

Dependence on Timely Payment

The Senior Lien Bonds will also be subject to extraordinary mandatory redemption, in whole or in part, if the balance of the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund is reduced to less than 88.01% of the respective required reserve amounts, unless such deficiencies are timely cured through the deposit of late payments from the sale of gas or under the Price Swap or the Senior Rate Swap or from proceeds of a Reserve Loan, as described herein.

The obligations of MuniGas to make payments to the Issuer under the Resale Contract are limited to the proceeds received by MuniGas from its sale of gas and deposits received from the Exchanger/Balancer for imbalances in deliveries under the Exchange and Balancing Agreement. The failure of the Municipal Buyers to make timely and complete payments to MuniGas for gas delivered by MuniGas could have a negative impact on MuniGas' ability to make the required payments to the Issuer under the Resale Contract.

The Senior Lien Bonds will also be subject to extraordinary mandatory redemption, in whole, after the occurrence of certain termination events under the Prepaid Contract. See "The Transaction Contracts—The Prepaid Contract—Termination." In addition to defaults and misrepresentations by MLCI or the ML Guarantor, termination events include events with respect to the Price Swap Provider that permit the Issuer to terminate the Price Swap or MLCI to terminate the Seller Price Swap, unless the Issuer or MLCI replaces such swaps, and changes in tax laws that materially adversely affect the economic benefit of the Prepaid Contract to either party (other than changes to income, franchise, and similar taxes). MLCI is not obligated to replace the Seller Price Swap, and the Issuer is not obligated to replace either Rate Swap, if any becomes terminable. For a description of the Issuer's limited undertaking to use reasonable efforts to replace the Price Swap if it becomes terminable, see "The Transaction Contracts—The Commodities Price Swap" herein.

Enforceability of Contracts

The ability of the Issuer to enforce investment, hedging, and other agreements material to the program, and the remedies available to the Bond Trustee and the owners of the Senior Lien Bonds upon an event of default under the Indenture, are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such agreements may not be readily available or may be limited.

The enforceability of the various legal agreements may also be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors or secured parties generally and by the exercise of judicial discretion in accordance with general principles of equity. The Rate Swaps, the Price Swap, Prepaid Contract, the Resale Contract, and other agreements are all executory contracts. If any of the parties with which the Issuer has contracted under such agreements or contracts, including the Prepaid Contract, is involved in a bankruptcy proceeding, the Issuer's interest in the contract would be unsecured and the relevant agreement could be discharged in return for a claim for damages against its estate with uncertain value. In such an event, the Issuer's revenues could be materially and adversely affected.

The Issuer and MuniGas may have, and the Sponsor has, sovereign immunity from suit for monetary damages for breach of their contractual obligations. If sovereign immunity is asserted and sustained, the Trustee and Bondholders would be relegated to an action for a writ of mandamus to compel officers of these parties to perform their ministerial duties required to enable the parties to perform their obligations. Such a remedy may not be available if performance is in dispute or the officers' actions are discretionary.

No Established Trading Market

The Senior Lien Bonds constitute a new issue with no established trading market. Although the Underwriter has informed the Issuer that it currently intends to make a market in the Senior Lien Bonds, it is not obligated to do so, and it may discontinue any such market making at any time without notice. There can be no assurance as to the development or liquidity of any market for the Senior Lien Bonds. If an active public market does not develop, the market price and liquidity of the Senior Lien Bonds may be adversely affected.

Federal Income Tax Matters; Changes in or Application of Tax Laws

As described under "Tax Matters," the issuance of the Bonds is subject to the delivery of Bond Counsel's opinion to the effect that, on the date of such delivery, assuming continuous compliance with certain covenants, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law and interest on the Bonds will not be subject to the alternative minimum tax on individuals. The Issuer cannot predict whether or to what extent Congress, the Treasury Department, the Internal Revenue Service (the "Service") or courts of competent jurisdiction may, following the issuance of the Bonds, enact new laws, or amend, change, or reinterpret existing laws, in a manner that could impact the Bonds or the issuance of new bonds for similar gas transactions. Although, with respect to tax-exempt obligations, such changes in the past have generally been accorded prospective application only and, as such, have not been applicable to outstanding indebtedness, there can be no assurance that changes with retroactive effect may not be enacted.

Bond Counsel's opinion assumes performance by the Issuer, MuniGas, and the Municipal Buyers of their covenants described under "The Transaction Documents—The Resale Contract—Tax Covenants" herein and under "Section 10.11. Tax Covenants" in Appendix A and comparable provisions included in the Cooperative Contract (including Purchase Contracts) and Spot Gas Sales Contracts. If any such person fails to perform any such covenant and to take any permitted remedial action, interest on the Bonds would become subject to federal income tax from the date of issue.

Bond Counsel's opinion is not a guarantee of a result, but represents a legal judgment based upon review of existing statutes, regulations, published rulings and court decisions and the representations and covenants described under "Tax Matters" herein. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and no assurance can be given that the Service would agree with the opinion of Bond Counsel, if the tax-exempt status of the interest on the Bonds were the subject of an audit. The Service has audited the tax-exempt status of bonds issued to finance the purchase of natural gas in prior years. As a result of its review of these earlier transactions, the Service issued final Treasury regulations on August 4, 2003, relating to the issuance of bonds for the purchase of natural gas, and the Bonds are subject to these regulations. If an audit is commenced, under current procedures the Service is likely to treat the Issuer as the "taxpayer," and the owners may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Secondary Market Prices of Senior Bonds

Although the secondary market prices of the Index Rate Bonds may be less volatile than the secondary market prices of the Fixed Rate Bonds, the Index Rate Bonds are not expected to consistently trade at a price of par. There is no put or demand feature with respect to the Index Rate Bonds, and there can be no assurance that the interest rate for the Index Rate Bonds during any three-month interest period will be a market rate throughout their term.

In addition, because the ratings on the Senior Lien Bonds are expected to be based primarily on the credit of Merrill Lynch & Co., Inc., any changes in the credit worthiness or credit rating of Merrill Lynch & Co., Inc. could affect the secondary market prices for the Senior Lien Bonds. Secondary market prices for the Senior Lien Bonds could also be affected as a result of changes in the marginal federal income tax rate, general changes in interest rates and/or credit spreads and other supply and demand conditions affecting the Senior Lien Bonds.

TAX MATTERS

The delivery of the Bonds is subject to the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that interest on the Bonds (i) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended (the “Code”), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code and existing regulations, published rulings and court decisions, assuming compliance with the covenants described below, and (ii) will not be included in computing the federal alternative minimum taxable income of the owners thereof who are individuals. The statutes, regulations, rulings and court decisions on which such opinion will be based are subject to change. The anticipated form of Bond Counsel’s opinion is reproduced as Appendix B.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation (other than an “S” corporation or a qualified mutual fund, financial asset securitization investment trust (FASIT), real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC)) will be included in its adjusted current earnings for purposes of calculating its alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

In rendering the foregoing opinions, Bond Counsel (i) will rely upon representations and certifications of the Issuer and MuniGas made in certificates dated the date of the initial delivery of the Bonds pertaining to the use, expenditure and investment of the proceeds of the Bonds and (ii) will assume continuing compliance with certain provisions of the Indenture by the Issuer, of the Resale Contract by MuniGas, and of the Purchase Contracts and Spot Gas Sales Contracts by the Municipal Buyers subsequent to the issuance of the Bonds. The Indenture will contain covenants by the Issuer to make certain filings, not to invest proceeds of the Bonds at a higher yield than the yield of the Bonds except as permitted by the Indenture, and periodically to calculate and “rebate” to the United States Treasury all “arbitrage profits” from the investment of the proceeds of the Bonds, and the Indenture, the Resale Contract, the Purchase Contracts, and the Spot Gas Sales Contracts will include covenants by the Issuer, MuniGas, and Municipal Buyers not to permit use of gas purchased under the Prepaid Contract in contravention of the covenants described under “The Transaction Contracts—The Resale Contract—Tax Covenants” herein and under “Section 10.11 Tax Matters” in Appendix A. Failure by the Issuer, MuniGas, or a Municipal Buyer to comply with any of these covenants could cause interest on the Bonds accruing from and after the date of issuance of the Bonds to be includable in the gross income of the owners thereof.

See “Investment Considerations-Federal Income Tax Matters; Changes in and Application of Tax Laws” herein.

UNDERWRITING

Subject to the terms and conditions of a Bond Purchase Agreement between the Issuer and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Underwriter”), dated December 4, 2006 (the “Bond Purchase Agreement”), the Underwriter has agreed to purchase from the Issuer, and the Issuer has agreed to sell to the Underwriter, all of the Senior Lien Bonds at a purchase price of \$2,378,839,388 (representing the par amount of each series, less an Underwriter’s discount of \$2,278,550 for the Fixed Rate Bonds and \$9,007,463 for the Index Rate Bonds, plus a net original issue premium of \$53,750,400 for the Fixed Rate Bonds) and all of the Subordinate Lien Bonds at a purchase price of \$81,179,252 (representing the par amount of the Subordinate Lien Bonds, less an Underwriter’s discount of \$440,748).

The Bond Purchase Agreement provides that the obligations of the Underwriter to pay for and accept delivery of the Bonds are subject to the delivery by the Issuer and purchase by the Underwriter of all of the Bonds, to the approving opinion of the Attorney General of the State of Texas and to the approval of certain legal matters by counsel and to certain other conditions precedent. The Underwriter is required under the Bond Purchase Agreement to take and pay for all of the Bonds, if any are taken.

The Underwriter has agreed to offer the Senior Lien Bonds for resale initially at the offering price set forth on the cover of this Official Statement. After the initial offering, the offering price and other selling terms may be changed at any time without notice.

In connection with the offering of the Senior Lien Bonds, the Underwriter may engage in transactions that stabilize, maintain or otherwise affect the price of the Senior Lien Bonds. Specifically, the Underwriter may over allot the offering of the Senior Lien Bonds, creating a short position. The Underwriter may bid for and purchase Senior Lien Bonds in the open market to cover short positions. In addition, the Underwriter may bid for and purchase Senior Lien Bonds in the open market to stabilize the price of the Senior Lien Bonds. These activities may stabilize or maintain the market price of the Senior Lien Bonds above independent market levels. The Underwriter is not required to engage in these activities, and, if engaged in, may discontinue these activities at any time.

Merrill Lynch Commodities, Inc. (MLCI) (the provider under the Prepaid Contract and the broker under brokerage agreements with the Issuer and MuniGas for the marketing of gas), Merrill Lynch Capital Services Inc. (the Rate Swap Provider), and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the Underwriter of the Bonds) are each subsidiaries of Merrill Lynch & Co., Inc. (the ML Guarantor) and will be compensated under or may profit from their agreements with the Issuer and MuniGas. It is expected that there will be certain fee sharing agreements among Merrill Lynch & Co., Inc. and/or its affiliated parties with respect to the transaction. Merrill Lynch & Co., Inc. and its affiliated parties also reserve the right to bid on one or more of the Investment Contracts described herein.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), and Moody's Investors Service, Inc. ("*Moody's*") have assigned ratings of "AA-" and "Aa3," respectively, to the Senior Lien Bonds. Certain information in addition to this Official Statement was supplied to such rating agencies to be considered in evaluating the Senior Lien Bonds. Such ratings express only the views of such rating agencies. An explanation of the significance of their respective ratings may be obtained from S&P at 1177 Avenue of the Americas 18th, New York, New York 10036 (telephone (212) 208-8000) and from Moody's at 99 Church Street, New York, NY 10007 (telephone (212) 553-1653). There is no assurance that such ratings will continue for any given period of time or will not be revised or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Neither the Issuer nor the Underwriter has undertaken any responsibility to bring to the attention of the holders of the Senior Lien Bonds any proposed downward revision or withdrawal. Any such downward revision in or withdrawal of such ratings may have an adverse effect on the market price of the Senior Lien Bonds.

LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale, and delivery of the Bonds are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Fulbright & Jaworski L.L.P., Bond Counsel in substantially the form attached hereto as Appendix B. Certain legal matters will be passed on for the Issuer and MuniGas by Fulbright & Jaworski L.L.P., for BP Energy Company and BP Corporation North America Inc. by their respective internal counsel, for MLCI by its internal counsel and by Vinson & Elkins L.L.P., for the Rate Swap Provider by its internal counsel and by Vinson & Elkins L.L.P., for the Bond Trustee by its counsel, Andrews Kurth L.L.P., and for the Underwriter by its counsel, Vinson & Elkins L.L.P. and by its special counsel regarding certain federal tax matters, Nixon Peabody LLP. The fees of certain of the foregoing counsel are contingent upon the issuance of the Bonds.

ABSENCE OF LITIGATION

Upon the issuance of the Bonds, the Issuer will certify that there is no known litigation pending against or, to the knowledge of the Issuer, threatened against the Issuer which in any way questions or materially affects the validity of the Bonds or of any proceedings or transactions relating to the issuance, sale, or delivery of the Bonds.

CONTINUING DISCLOSURE

The Issuer has agreed in the Indenture, for the benefit of the holders and Beneficial Owners of the Bonds, to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors in accordance with Rule 15c2-12 ("*Rule 15c2-12*") of the United States Securities and Exchange Commission (the "*SEC*") and to Beneficial Owners of the Bonds who apply to receive such information as described below. The information will be available from the information vendors to securities brokers and others who subscribe to receive the information from the vendors.

MuniGas has agreed in the Resale Contract to provide to the Issuer all financial information and operating data required to enable the Issuer to timely comply with its continuing disclosure obligations under the Indenture.

Annual Reports

The Issuer is obligated to provide certain updated financial information and operating data annually. The information to be provided includes audited financial statements for the Issuer and MuniGas for their fiscal years ending in 2007 (for the period from December 1, 2006 through the end of such fiscal year) and each year thereafter as well as updated quantitative financial information and operating data of the general type included in this Official Statement in Schedules 1, 2, 3, and 4. In doing so, the Issuer will update Schedule 2 by reporting actual Issuer revenues and disbursements for the applicable prior year, Schedule 3 by reporting actual sales by MuniGas for the applicable prior year, which may be provided by category rather than by individual buyer, and Schedule 4 by reporting collections experience for MuniGas rather than TMGC I. The Issuer will provide this information within four months after the end of each fiscal year. If audited financial statements are not available by the required time, the Issuer will provide unaudited statements on time and audited financial statements when and if they become available.

The Issuer will provide the updated annual information to each nationally recognized municipal securities information repository ("*NRMSIR*"), to any state information depository ("*SID*") that is designated by the State of Texas and approved by the staff of the SEC, and to the Bond Trustee.

The Issuer's current fiscal year end is December 31. If the Issuer changes its fiscal year, it will provide notice of the change to each NRMSIR and any SID and to the Bond Trustee.

Quarterly Reports

The Issuer is obligated to provide to each NRMSIR, any SID, and the Bond Trustee, within 45 days after the end of each calendar quarter beginning with the quarter ending March 31, 2007, (1) the number and amount of billings made by MuniGas in such quarter and the amount and percentage of such billings which were paid late or not paid and (2) the amount of any applications of money in the Debt Service Reserve Fund or any Swap Reserve Fund during, and the balance thereof as of the end of, such quarter.

Material Event Notices

The Issuer is also obligated to provide timely notice to any SID, the Bond Trustee, and either each NRMSIR or the Municipal Securities Rulemaking Board ("*MSRB*"), of any of the following events with respect to the Bonds, if such event is material within the meaning of federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of liquidity provider or credit provider, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of

holders of the Bonds; (8) calls of the Bonds for redemption; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the Issuer will provide timely notice of any failure by the Issuer to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". Notwithstanding the Issuer's agreement, there is no credit enhancement, credit provider, or liquidity provider for the Bonds.

Availability of Information

The Issuer has agreed to provide the foregoing annual reports and material event notices only to the Bond Trustee and the information vendors described above. Under the Indenture, the Bond Trustee has agreed to provide such reports and notices (and all other notices required under the Indenture to be given to Beneficial Owners of Bonds) to each person who states in writing to the Bond Trustee that it is a Beneficial Owner of the Bonds and who provides its name, mailing address, and internet address to the Bond Trustee. Requests may be addressed to: The Bank of New York Trust Company, N.A., 600 N. Pearl Street, Suite 420, Dallas, Texas 75201. The information provided by the Issuer will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors, obtain the information through securities brokers who do so or register to receive such information from the Bond Trustee. The information may be provided to a Beneficial Owner by postal service or electronic mail or by similarly sent notice that the information is available on an identified publicly available website.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID and has received a no-action letter from the SEC dated August 29, 1995 that recognized the Municipal Advisory Council of Texas as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The Issuer has agreed to update information and to provide notices of material events only as described above. The Issuer has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, conditions or prospects or agreed to update any information that is provided, except as described above.

The Issuer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to such agreement, although holders of Bonds may seek a writ of mandamus to compel the Issuer to comply with its agreement. Failure to comply with the Issuer's disclosure agreement does not constitute a Default or an Event of Default under the Bond Indenture.

The Issuer may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Issuer, if the agreement, as amended, would have permitted an Underwriter to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12 and either the holders of a majority in aggregate principal amount of the outstanding Senior Lien Bonds consent (or, if no Senior Lien Bonds are outstanding, the holders of a majority in aggregate principal amount of the outstanding Subordinate Lien Bonds) or any person unaffiliated with the Issuer determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds.

Compliance with Prior Undertakings

The Issuer has not previously made any continuing disclosure undertakings in accordance with Rule 15c2-12.

MISCELLANEOUS

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. Although descriptions of the provisions of documents are contained herein and in Appendix A hereto, copies of such documents are available from Merrill Lynch & Co., the Underwriter, prior to delivery of the Bonds, and thereafter from The Bank of New York Trust Company, N.A., 600 N. Pearl Street, Suite 420, Dallas, Texas 75201. Any statements made in this Official Statement or the Appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any such opinions or estimates will be realized.

This Official Statement has been prepared in connection with the sale of the Bonds and may not be reproduced or used for any other purpose. It is not to be construed as a contract between the registered or Beneficial Owners of the Bonds and any other person.

The Issuer has duly approved and authorized the distribution of this Official Statement.

APPENDIX A —

DEFINITIONS AND EXCERPTS OF CERTAIN PROVISIONS OF THE INDENTURE

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The following are selected excerpts from the Indenture. Other provisions of the Indenture are described in the Official Statement.

**ARTICLE ONE
DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION**

SECTION 1.01. Definitions.

For all purposes of this Indenture, *except* as otherwise expressly provided or *unless* the context otherwise requires:

A. The terms defined in this Article have the meanings assigned to them in this Article and all such terms include the plural as well as the singular.

B. All accounting terms not otherwise defined herein have the meanings assigned to them, and all computations herein provided for shall be made, in accordance with generally accepted accounting principles.

C. All references herein to “*generally accepted accounting principles*” refer to such principles as they exist on the date of applicability thereof.

D. All references in this instrument to designated “*Articles*”, “*Sections*”, “*Exhibits*”, and other subdivisions are to the designated Articles, Sections, Exhibits, and other subdivisions of this instrument as originally executed.

E. The words “*herein*”, “*hereof*”, and “*hereunder*” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section, Exhibit, or other subdivision.

“*Accountant*” means a Person engaged in the practice of or licensed as an accountant, who (except as otherwise expressly provided in this Indenture) may be employed by or affiliated with the Issuer, the Sponsor, MuniGas, or the Administrator.

“*Act*” when used with respect to any Bondholder or Bondholders has the meaning stated in *Section 1.02*.

“*Actual Knowledge*,” when used with respect to the knowledge of the Trustee or the Tender Agent, means a matter that is known either to any senior executive of the Trustee or the Tender Agent or of any Affiliate thereof to which the Trustee or the Tender Agent has delegated the performance of any obligation of the Trustee or the Tender Agent hereunder or any officer of the Trustee or the Tender Agent or any such Affiliate having supervisory responsibility in its corporate trust department or assigned to administer the trusts herein granted to the Trustee or as to which the Trustee or the Tender Agent or such Affiliate has been given written notice in accordance with the terms hereof.

“*Administration Agreement*” means Program Administration Agreement, dated as of August 31, 2005, as amended, between the Issuer and the initial Administrator, as further amended or supplemented from time to time in accordance with its terms, and any similar agreement between the Issuer and any substitute Administrator.

“*Administrator*” means Municipal Energy Resources Partners, Ltd., a limited partnership organized under the laws of the State of Texas, until a successor Administrator shall have become such pursuant to the provisions of *Section 10.17*, and thereafter “*Administrator*” shall mean such successor.

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition,

“**control**” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether by contract, through the ownership of voting securities, or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing.

“**Amortized Value**” of any Series 2006A Bond as of any Redemption Date means the principal amount of such Bond multiplied by the price of such Bond expressed as a percentage of principal amount, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the Issue Date), with a delivery date equal to such Redemption Date, a maturity date equal to the Stated Maturity of such Bond, and a yield equal to such Bond’s original reoffering yield specified in the Official Statement dated December 4, 2006, of the Issuer relating to the Senior Lien Bonds.

“**Applicable Tax-Exempt Municipal Bond Rate**” for any Series 2006A Bond as of any Redemption Date therefor means the “Comparable AAA General Obligations” yield curve rate for the Stated Maturity of such Bond as published by Municipal Market Data (available to its subscribers through its internet address: www.tm3.com) five business days prior to the date [on which notice of such Redemption Date is first given to the Holder of such Bond]. If no such yield curve rate is established for the applicable year, the “Composite AAA General Obligations” yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the “**Applicable Tax-Exempt Municipal Bond Rate**” for such Bond and Redemption Date will be interpolated or extrapolated from those yield curve rates on a straight-line basis. If Municipal Market Data no longer publishes the “Comparable AAA General Obligations” yield curve rate, then the “**Applicable Tax-Exempt Municipal Bond Rate**” for such Bond and Redemption Date will equal the Consensus Scale yield curve rate for the year made available on such fifth prior business day by Municipal Market Advisors (available to its subscribers through its internet address: www.theconsensus.com). If Municipal Market Data no longer publishes the “Comparable AAA General Obligations” yield curve rate and Municipal Market Advisors no longer publishes the Consensus Scale, the “**Applicable Tax-Exempt Municipal Bond Rate**” for such Bond and Redemption Date shall be determined on such fifth prior business day by a major market maker in municipal securities selected by the Issuer, as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by S&P and Moody’s with a maturity date equal to the Stated Maturity of such Bond and having characteristics (other than the ratings) most comparable to those of such Bond in the judgment of the quotation agent. The quotation agent’s determination of the Applicable Tax-Exempt Municipal Bond Rate shall be final and binding in the absence of manifest error.

“**Board of Directors**” means either the board of directors of the Issuer or any duly authorized committee of said board.

“**Board Resolution**” means a copy of a resolution, certified by the Secretary or an Assistant Secretary of the Issuer to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, delivered to the Trustee.

“**Bondholder**” means a Holder of a Bond.

“**Bond Register**” and “**Bond Registrar**” have the respective meanings stated in *Section 3.04*.

“**Bonds**” means all bonds authenticated and delivered hereunder (including both Senior Lien Bonds and Subordinate Lien Bonds).

“**Book-Entry Bond**” means any Bond registered in the name of the Securities Depository or its nominee.

“**Business Day**” means any day other than a Saturday, a Sunday, or a legal holiday or the equivalent on which banking institutions generally are authorized or required to close in the City of New York, New York.

“**Code**” means the Internal Revenue Code of 1986, as amended and in force and in effect on the Issue Date.

“**Computation Date**” for the Bonds of each “issue” has the meaning stated in section 1.148-1(b) of the Regulations and, until the Regulations are amended to provide otherwise, means (1) any day preceding the fifth anniversary of the Issue Date selected by Issuer Request before such fifth anniversary and, if no such date is theretofore selected by Issuer Request, then the day immediately preceding such fifth anniversary, (2) each fifth anniversary of the Computation Date for the Bonds of such issue described in *Clause (1)* or, if the Bonds of such issue are a “variable yield issue” as defined in Section 1.148-1(b) of the Regulations, every anniversary of such Computation Date, as elected by Issuer Request consistently throughout the term of the Bonds of such issue, and (3) the later of the final maturity of the Bonds of such issue or the date on which due provision for payment of all of the Bonds of such issue has been made.

“**Cooperative Contract**” means the Joint Gas Purchase Contract, dated as of January 1, 2006, among MuniGas, the Sponsor, and one or more “local governments,” as defined in Chapter 791, Texas Local Government Code, as amended, and state “agencies,” as defined in Section 771.002, Texas Government Code, as amended, as originally executed or as the same may be supplemented and amended from time to time in accordance with its terms.

“**Cost of Issuance Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“**Costs of Issuance**” means all costs paid or incurred by the Issuer in connection with the creation, preparation, offering, sale, and delivery of the Bonds, including legal, accounting, actuarial, engineering, financial advisory, trustee, paying agent, and escrow fees, printing expenses, underwriting discount and compensation, and fees and expenses due to the Administrator, the Sponsor, or MuniGas upon issuance of Bonds.

“**Debt Service Reserve Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“**Debt Service Reserve Requirement**” means an amount equal to \$71,942,546 reduced as of each Redemption Date for Senior Lien Bonds described in *Section 3.02C*, *3.02D*, or *3.02F* to the product of (1) such amount (as so reduced on each prior such Redemption Date) and (2) a fraction, the numerator of which is the greatest product, for any month, of the sums specified under “Total-Gas to be Delivered (MMBtus)” and “Total-Fixed Price” in *Exhibit C* to the Prepaid Contract immediately after such Redemption Date and the denominator of which is equal to the greatest such product, for any month, immediately before the amendment to such Exhibit on account of the redemption on such Redemption Date.

“**Default**” means the occurrence of an Event of Default or an event which, after notice or lapse of time or both, would become an Event of Default. A Default shall “**exist**” if a Default shall have occurred and be continuing.

“**Defaulted Interest**” has the meaning stated in *Section 3.06*.

“**Deferred Administrator Fee**” means the portion of fees payable by the Issuer to the Administrator pursuant to the Administration Agreement that are referred to therein as “Deferred Fees”, if any.

“**Discount**” has the meaning stated in the Resale Contract.

“**Eligible Investments**” means any of the following securities:

- (1) **Governments and Agencies:** obligations of the United States of America or its agencies and instrumentalities;

(2) **Government Guaranteed Obligations:** other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States of America or any agency or instrumentality thereof;

(3) **Municipals:** obligations of states, agencies, counties, cities, and political subdivisions of any state rated as to investment quality by S&P not less than “AA-” and by Moody’s not less than “A1/P-1” or “Aa3” and having a remaining term of one year or less;

(4) **Insured CDs:** certificates of deposit issued by a state or national bank or savings bank domiciled in the State of Texas and the short-term debt of which is rated at least “A1/P-1” or “Aa3” by Moody’s, *if* such certificates of deposit are for a fixed dollar amount plus a fixed rate of interest, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, and are not rated by S&P with the suffix “r”;

(5) **Collateralized Repos:** fully collateralized agreements to buy, hold for a specified time, and sell back at a future date obligations described in *Clauses (1) through (3)* immediately above, if such agreement:

(a) has a defined termination date within one year after purchase for a fixed principal sum plus interest;

(b) is secured by obligations described in such *Clause (1)*;

(c) requires the securities being purchased to be pledged to the Trustee, held in the name of the Trustee, and deposited at the time the investment is made with the Trustee or with a third party selected and approved by Issuer Order;

(d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; and

(e) is rated not less than “A-1+” by S&P and not less than “A1/P-1” or “Aa3” by Moody’s, and such rating by S&P does not include the suffix “r”;

(6) **Bankers’ Acceptances:** bankers’ acceptances that:

(a) have a stated maturity within three months after the date of issuance;

(b) will be, in accordance with their terms, liquidated in full at maturity for a fixed dollar amount plus interest;

(c) are eligible as collateral for borrowing from a Federal Reserve Bank; and

(d) are issued by a bank organized and existing under the laws of the United States of America or any state, the short-term obligations of which bank are rated not less than “A-1+” by S&P and not less than “P-1” by Moody’s, and such rating by S&P does not include the suffix “r”;

(7) **Commercial Paper:** commercial paper that matures in a fixed dollar amount within three months after the date of its issuance, is rated not less than “A-1+” by S&P and not less than “P-1” by Moody’s, and such rating by S&P does not have an “r” appended to such rating;

(8) **Money Market Mutual Funds:** money market mutual funds that:

- (a) are registered with and regulated by the United States Securities and Exchange Commission;
- (b) provide the Trustee or the Issuer with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
- (c) have a dollar-weight average stated maturity of 90 days or fewer;
- (d) include in their investment objectives the maintenance of a stable net asset value of \$1 per share; and
- (e) are continuously rated as to investment quality not less than “AAAm” or “AAAm-G” by S&P and “Aaa” by Moody’s; and

(9) **Investment Contracts:** obligations of any Person, if the long-term senior unsecured debt of such Person is rated at least “AA-” by S&P and “A1/P-1” or “Aa3” by Moody’s, including the Investment Contracts;

excluding, however, (A) obligations whose payment represents the coupon payments on the outstanding principal balance of underlying mortgage-backed securities collateral and pays no principal; (B) obligations whose payment represents the principal stream of cash flow from underlying mortgage-backed securities collateral and bears no interest; (C) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (D) collateralized mortgage obligations the interest rate on which is determined by an index that adjusts opposite to the changes in a market index.

“**Event of Default**” has the meaning stated in *Article Six*. An Event of Default shall “**exist**” if an Event of Default shall have occurred and be continuing.

“**Gas**” means any mixture of hydrocarbons and noncombustible gases in a gaseous state consisting primarily of methane.

“**Gas Management Agreement**” means the Gas Management Agreement, dated as of August 31, 2005, as amended, between the Issuer and the initial Administrator, as amended or supplemented from time to time in accordance with its terms, and any similar agreement between the Issuer and any substitute provider of the services described therein.

“**Governmental Obligations**” means direct obligations of, or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by, the United States of America which may not be called for redemption or otherwise prepaid prior to maturity.

“**Gross Proceeds**” of the Bonds of any issue means (1) all Proceeds thereof and (2) all “replacement proceeds” thereof, as defined in Section 1.148-1(c) of the Regulations, including all money held hereunder and allocable to the Bonds of such issue in accordance with Sections 1.148-6 and 1.148-9 of the Regulations (other than Proceeds of Bonds of any issue).

“**Guaranty**” means either Guarantee of Merrill Lynch & Co., Inc. for the benefit of the Issuer and the Trustee guarantying payment of the obligations of Merrill Lynch Commodities, Inc. under the Prepaid Contract and payment of the obligations of Merrill Lynch Capital Services, Inc. under the initial Rate Swap, respectively.

“**Holder**” when used with respect to any Bond means the Person in whose name such Bond is registered in the Bond Register.

“Indenture” means this instrument as originally executed or as it may from time to time be supplemented, modified, or amended by one or more indentures or other instruments supplemental hereto entered into pursuant to the applicable provisions hereof.

“Independent” when used with respect to any specified Person means such a Person who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Issuer, the Sponsor, MuniGas, any Municipal Buyer, the Prepaid Seller, the Guarantor, the Swap Providers, or any other obligor upon the Bonds or in any Affiliate of any such Person, and (3) is not connected with any such Person or Affiliate thereof as an officer, employee, promoter, underwriter, trustee, partner, director, or individual performing similar functions. Whenever it is herein provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by an Issuer Order, and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Interest Payment Date” means the Stated Maturity of an installment of interest on the Bonds.

“Investment Contract” means each Investment Agreement, dated December 20, 2006, between the Issuer and Depfa Bank, plc, as amended from time to time, and any replacement thereof entered into, in accordance with the applicable provisions thereof and hereof.

“Issue Date” means the date of the authentication and delivery of the initial Bonds in exchange for the purchase price thereof.

“Issuer” means the Person named as the **“Issuer”** in the first paragraph of this instrument *until* a successor corporation shall have become such pursuant to the applicable provisions of this Indenture, and thereafter **“Issuer”** shall mean such successor corporation.

“Issuer Consent”, **“Issuer Order”**, and **“Issuer Request”** mean, respectively, a written consent, order, or request signed in the name of the Issuer by the President, a Vice President, or the Executive Director of the Issuer (or by any other officer of the Issuer or by any officer of the Administrator authorized to sign Issuer Consents, Issuer Orders, or Issuer Requests by Board Resolution) and delivered to the Trustee.

“Lien of this Indenture” or **“lien hereof”** means the security interest created by this Indenture, including by means of any supplement hereto or by any other delivery or writing referred to in *Granting Clause Fifth*.

“Limited Purpose Entity” means a corporation, trust, or other entity organized under the laws of the District of Columbia or any state of the United States of America whose charter, articles of incorporation, trust instrument, bylaws, or other governing document includes provisions that provide that, for so long as any Bond remains Outstanding, the entity:

(1) shall be organized solely (a) to acquire, own, operate, maintain, sell, transfer, or assign oil, Gas, and other liquid or gaseous hydrocarbons, leasehold and other interests therein, and similar property and (b) to engage in activities that are incidental or convenient to the accomplishment of the foregoing;

(2) shall not incur, assume, or guarantee any indebtedness (other than Reserve Loans on the terms permitted hereby) unless such indebtedness is evidenced by Bonds or used for the purpose referred to in *Clause (1)* of this definition or has been consented to by the Swap Providers and Reserve Lenders or by the Required Bondholders and the entity has received written confirmation from S&P and Moody’s that its ratings assigned to the Bonds will not be withdrawn, suspended, or reduced on account of such indebtedness; and

(3) shall not consolidate or merge with or into any other entity or convey or transfer all or substantially all of its assets or properties unless the entity formed by or surviving such consolidation or

merger or to which such assets or properties are conveyed or transferred is a Limited Purpose Entity that has expressly assumed all of the obligations of the Issuer secured hereby.

“**Market Yield Value**” of any Series 2006A Bond as of any Redemption Date therefor means the sum of the present values of the remaining unpaid payments of principal and interest to be paid thereon from and including such Redemption Date to the Stated Maturity thereof, discounting to the Redemption Date semiannually at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate for such Bond and Redemption Date minus 0.25% per annum.

“**Maturity**” when used with respect to any Bond means the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration or call for redemption or otherwise.

“**Maximum Rate**” means 15% per annum.

“**Moody’s**” means Moody’s Investors Service, Inc. or any successor to its credit rating service operations.

“**MSRB**” means the Municipal Securities Rulemaking Board.

“**Municipal Buyer**” means each “Buyer,” within the meaning of the Cooperative Contract, and each other state or local government to which the Issuer or MuniGas, through the Sponsor or otherwise, sells Gas purchased under the Prepaid Contract or exchanged for such Gas in accordance with the provisions of this Indenture and the Resale Contract.

“**MuniGas**” has the meaning stated in the recitals.

“**NRMSIR**” means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

“**Officers’ Certificate**” of any Person means a certificate signed by the President or any Vice President and by the Secretary or an Assistant Secretary of such Person (or, in the case of the Administrator, by the comparable officers of its general partner, if the Administrator is organized as a partnership) and delivered to the Trustee.

“**Operating Expense Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Operating Expenses**” means all expenses of owning, purchasing, receiving, transporting, storing, and selling Gas that is part of the Trust Estate, *including* taxes, if and to the extent applicable, whether current expenses or chargeable to capital account, fees and expenses of any Person engaged by the Issuer to market, dispatch, sell, and bill and collect for such Gas, and all other amounts due from (or to be deposited or refunded by) the Issuer in respect of such Gas pursuant to the Prepaid Contract, the Resale Contract, and the Gas Management Agreement.

“**Opinion of Counsel**” means a written opinion of counsel who may (except as otherwise expressly provided in this Indenture) be employed by or counsel for one or more of the Issuer, the Sponsor, MuniGas, any Municipal Buyer, the Prepaid Seller, the Guarantor, the Swap Providers, or the Reserve Lenders and, when given with respect to the status of interest on any Bond under federal income tax law, shall be counsel of nationally recognized standing in the field of municipal bond law.

“**Outstanding**” when used with respect to Bonds means, as of the date of determination, all Bonds theretofore authenticated and delivered under this Indenture, *except*, without duplication:

- (1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Bonds for the payment or redemption of which money in the necessary amount is deposited with the Trustee or any Paying Agent at or after the Maturity thereof in trust for the Holders of such Bonds in accordance with *Article Four*;
- (3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under this Indenture;
- (4) Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in *Section 3.05*; and
- (5) Bonds for the payment of the principal of (and premium, if any) and interest on which money or Governmental Obligations or both are held by the Trustee or an escrow agent with the effect specified in *Section 5.02*;

provided, however, that in determining whether the Holders of the requisite principal amount of Senior Lien Bonds Outstanding have given any request, demand, authorization, direction, notice, consent, or waiver hereunder, Senior Lien Bonds owned by the Issuer, the Sponsor, MuniGas, any Municipal Buyer, the Prepaid Seller, the Guarantor, any Swap Provider, or any Affiliate of any such Person shall be disregarded and deemed not to be Outstanding, *except* that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Senior Lien Bonds which to the actual knowledge of the Trustee are so owned shall be so disregarded.

“Outstanding Secured Bonds” means, as of the date of determination, (1) all Bonds then Outstanding and (2) all Bonds, if any, alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in *Section 3.05* but whose ownership and enforceability by the Holder thereof have been established by a court of competent jurisdiction or other competent tribunal or otherwise established to the satisfaction of the Trustee.

“Paying Agent” means any Person authorized by the Issuer or the Trustee to pay the principal of (and premium, if any) or interest on the Bonds on behalf of the Issuer.

“Permitted Encumbrances” means:

- (1) liens securing the payment of taxes, assessments, and governmental charges not yet due and payable, or due and payable without penalty so long as so due and payable, or deposits created in the ordinary course of business as security for compliance with laws imposing taxes, assessments, or governmental charges;
- (2) liens securing the payment of taxes, assessments, and governmental charges the validity of which is being contested in good faith by appropriate proceedings;
- (3) materialmen’s, mechanics’, repairmen’s, employees’, operators’, or other similar liens or charges that (a) arise in the ordinary course of business incidental to construction, maintenance, or operation of any property of the Issuer and (b) have not at the time been filed pursuant to law;
- (4) liens incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance, and other similar statutory obligations, or to secure the performance of leases, licenses, franchises, permits, tenders, statutory obligations, surety and appeal bonds, performance and return-of-money bonds, and other similar obligations (exclusive of obligations incurred in connection with the borrowing of money or the obtaining of advances or credit); and

(5) any judgment lien, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay.

“**Person**” means any individual, corporation, partnership, joint venture, association, limited liability company, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“**Place of Payment**” means the city or political subdivision thereof in which the Issuer is required by this Indenture to maintain an office or agency for the payment of the principal of or interest on the Bonds.

“**Predecessor Bonds**” of any particular Bond means every previous Bond evidencing all or a portion of the same debt as that evidenced by such particular Bond, and, for purposes of this definition, any Bond authenticated and delivered under *Section 3.05* in lieu of a lost, destroyed, or stolen Bond shall be deemed to evidence the same debt as the lost, destroyed, or stolen Bond.

“**Prepaid Contract**” means the Prepaid Natural Gas Supply Contract, dated as of December 1, 2006, between Merrill Lynch Commodities, Inc. and the Issuer, as amended from time to time in accordance with its terms.

“**Prepaid Seller**” means the party to the Prepaid Contract other than the Issuer.

“**Price Swap**” means the ISDA Master Agreement (including the related Schedule and Credit Support Annex) and the Confirmation, each dated the Issue Date and between the Issuer and BP Corporation North America Inc., as amended from time to time in accordance with the applicable provisions thereof and hereof, and any replacement therefor entered into in accordance with the applicable provisions hereof.

“**Price Swap Provider**” means the Person (other than the Issuer) obligated on the Price Swap Agreement.

“**Price Swap Reserve Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“**Price Swap Reserve Requirement**” means an amount equal to \$7,000,000 reduced as of each Redemption Date for Senior Lien Bonds described in *Section 3.02C, 3.02D, or 3.02F* to the product of (1) such amount (as so reduced on each prior such Redemption Date) and (2) a fraction, the numerator of which is the greatest product, for any month, of the sums specified under “Total-Gas to be Delivered (MMBtus)” and “Total-Fixed Price” in *Exhibit C* to the Prepaid Contract immediately after such Redemption Date and the denominator of which is the greatest such product, for any month, immediately before the amendment to such Exhibit on account of the redemption on such Redemption Date, or such lesser amount as shall be agreed to in writing by the Price Swap Provider.

“**Proceeds**” of the Bonds of any issue means:

(1) **Sales Proceeds:** all amounts actually or constructively received from the sale of the Bonds of such issue, including amounts used to pay underwriters’ discount or compensation but excluding interest accrued prior to the Issue Date; and

(2) **Investment Proceeds:** all amounts actually or constructively received from investing Proceeds of the Bonds of such issue.

“**Proceeds Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“Program Budget” means each budget of revenue and expenses delivered by the Issuer to the Trustee pursuant to *Section 10.09*.

“Program Document” means this Indenture, each Bond, the Prepaid Contract, the Resale Contract, the Guaranties, the Swap Agreements, the Administration Agreement, the Gas Management Agreement, the Investment Contracts, each amendment or supplement to or replacement of any of the foregoing, and all other contracts or agreements described in *Granting Clause First*.

“Program Expense” means all fees, expenses, and indemnities payable by the Issuer to the Trustee, the Paying Agent, and the Bond Registrar hereunder, to the Sponsor pursuant to the Resale Contract, or to the Administrator pursuant to the Administration Agreement, *except* any such fee or expense which is paid or to be paid with money credited to the Program Fund, and all other fees and expenses of administering and carrying out the actions required by this Indenture which are not expressly payable from any fund or account held by the Trustee hereunder other than the Program Expense Account, including the fees and expenses of attorneys and accountants engaged by the Issuer to provide Opinions of Counsel required hereby, to provide a calculation of rebate pursuant to *Section 10.11J*, or to defend the tax-exempt status of the Bonds as part of any examination by the Internal Revenue Service.

“Program Expense Account” means the account within the Revenue Fund so defined in *Section 4.01B*.

“Qualified Use” has the meaning described in (and shall be determined in accordance with) the Resale Contract.

“Rate Swap” means a Senior Rate Swap or the Subordinate Rate Swap.

“Rate Swap Provider” means a Person (other than the Issuer) obligated on a Rate Swap.

“Rate Swap Reserve Fund” means either the Senior Rate Swap Reserve Fund or the Subordinate Rate Swap Reserve Fund.

“Rate Swap Reserve Requirement” means either the Senior Rate Swap Reserve Requirement or the Subordinate Rate Swap Reserve Requirement.

“Rebate Amount” for the Bonds of any issue as of any Computation Date means the “rebate amount” with respect to the Bonds of such issue determined in accordance with Section 1.148-3 of the Regulations.

“Rebate Calculation Date” for the Bonds of any issue means (1) any Computation Date for the Bonds of such series specified by Issuer Order that occurs on or after the fifth anniversary of the Issue Date for the Bonds and, if no such Issuer Order is theretofore received by the Trustee, the last Computation Date for the Bonds of such issue on or before such fifth anniversary, (2) each subsequent Computation Date for the Bonds of such issue specified by Issuer Order that occurs on or before the fifth anniversary of the immediately preceding Rebate Calculation Date for the Bonds of such issue or, if no such Issuer Order is given, each such fifth anniversary of the first such Rebate Calculation Date for the Bonds of such issue, and (3) the final Computation Date for the Bonds of such issue.

“Rebate Fund” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“Redemption Date” when used with respect to any Bond or portion thereof to be redeemed means the date fixed for such redemption pursuant to this Indenture.

“**Redemption Price**” when used with respect to any Bond or portion thereof to be redeemed means the price at which it is to be redeemed pursuant to this Indenture, excluding installments of interest with a Stated Maturity the Regular Record Date for which is prior to the Redemption Date.

“**Reduction Event**” has the meaning stated in the Prepaid Contract.

“**Regular Record Date**” for the interest payable on any Bond or portion thereof of any series on any Interest Payment Date means the date specified for the Bonds of such series in the insert to such Bonds set forth in *Section 3.01E*.

“**Regulations**” means the temporary or final Income Tax Regulations applicable to the Bonds pursuant to sections 141 through 150 of the Code. Any reference to a Section of the Regulations shall also refer to any successor provision to such Section hereafter promulgated by the Internal Revenue Service pursuant to sections 141 through 150 of the Code and applicable to the Bonds.

“**Required Bondholders**” means the Holders of a majority in aggregate principal amount of the Outstanding Senior Lien Bonds or, if no Senior Lien Bonds are Outstanding, the Holders of a majority in aggregate principal of the Outstanding Subordinate Lien Bonds.

“**Resale Contract**” means the Natural Gas Supply Contract, dated as of December 1, 2006, between the Issuer and MuniGas, as originally executed or as it may from time to time be amended in accordance with the provisions hereof.

“**Reserve Interest Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Reserve Loan**” means any loan of money to the Issuer to restore the balance of the Debt Service Reserve Fund to the Debt Service Reserve Requirement, or the balance of the Price Swap Reserve Fund to the Price Swap Reserve Requirement, or the balance of the Senior Rate Swap Reserve Fund to the Senior Rate Swap Reserve Requirement, if in any case made in accordance with the provisions of *Section 10.21*.

“**Reserve Lender**” means the Person entitled to receive repayment of principal of and interest on a Reserve Loan.

“**Reserve Principal Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Responsible Officer**” when used with respect to the Trustee means the chairman or vice chairman of the board of directors of the Trustee, the chairman or vice chairman of the executive committee of said board, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller, any assistant controller, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

“**Revenue Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“**Revenues**” means all amounts received by or for the account of the Issuer or the Trustee in or on account of the ownership, operation, exchange, or sale of any property comprising a part of the Trust Estate, *including* without limitation (1) all amounts received from the sale or exchange of Gas that is part of the Trust Estate (including deposits), (2) all amounts received pursuant to the Prepaid Contract, the Resale Contract, the Guaranty, and Swap Agreements, and (3) income from the investment of all money credited to any fund or account held by the Trustee hereunder.

“**Rule**” means SEC Rule 15c2-12, as amended from time to time.

“**S&P**” means Standard & Poor’s Rating Services or any successor to its credit rating service operations.

“**SEC**” means the United States Securities and Exchange Commission.

“**Securities Depository**” means The Depository Trust Company or any successor Person appointed by the Trustee to act as Holder of the Bonds, directly or through a nominee, and to maintain a system for recording and transferring beneficial interests in the Bonds and distributing payments thereon and notices in respect thereof.

“**Senior Interest Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Senior Lien Bonds**” means the Series 2006A Bonds and the Series 2006B Bonds.

“**Senior Principal Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Senior Rate Swap**” means the ISDA Master Agreement (including the related Schedule) dated as of December 1, 2006, and any of the three initial Confirmations thereunder specifying the greatest notional amounts, each dated December 4, 2006, between the Issuer and Merrill Lynch Capital Services, Inc., and the Guaranty thereof by Merrill Lynch & Co., Inc., each as amended from time to time in accordance with the applicable provisions thereof and hereof, and any replacement therefor entered into in accordance with the applicable provisions hereof.

“**Senior Rate Swap Reserve Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“**Senior Rate Swap Reserve Requirement**” means an amount equal to \$2,320,000 reduced as of each Redemption Date for Series 2006B Bonds described in *Section 3.02C, 3.02D, or 3.02F* to the product of (1) such amount (as so reduced on each prior such Redemption Date) and (2) a fraction, the numerator of which is the greatest product, for any month, of the sums specified under “Series 2006B Gas to be Delivered (MMBtus)” and “Total-Fixed Price” in *Exhibit C* to the Prepaid Contract immediately after such Redemption Date and the denominator of which is equal to the greatest such product, for any month, immediately before the amendment to such Exhibit on account of the redemption on such Redemption Date, or such lesser amount as shall be agreed to in writing by the Rate Swap Provider.

“**Series 2006A Bonds**” has the meaning stated in *Section 3.01*.

“**Series 2006B Bonds**” has the meaning stated in *Section 3.01*.

“**Series 2006C Bonds**” has the meaning stated in *Section 3.01*.

“**SID**” means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

“**Sinking Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“**Special Record Date**” for the payment of any Defaulted Interest on the Bonds means a date fixed by the Trustee pursuant to *Section 3.06*.

“**Spread Premium**” for any Series 2006B Bond or Series 2006C Bond to be redeemed as of any Redemption Date means the present value of the product of (a) the excess, if any, of (i) the per annum spread above the percentage of Three-Month LIBOR Rate at which such Bond bears interest (0.33% in the case of Series 2006B Bonds with a Stated Maturity of December 15, 2009, 0.55% in the case of Series 2006B Bonds with a Stated Maturity of December 15, 2017, 0.70% in the case of Series 2006B Bonds with a Stated Maturity of December 15, 2026, and 1.45% in the case of Series 2006C Bonds) over (ii) 0.25% per annum and (b) the principal amount of such Bond, determined as if such product were payable quarterly from such Redemption Date to the Maturity of such Bond, determined as if any such Series 2006B Bonds were redeemed on the first Redemption Date described in *Section 3.02A* as of which 50% of the Series 2006B Bonds of the same Stated Maturity then Outstanding will have been redeemed (the “**Median Maturity**”) but no such Bond were otherwise redeemed prior to Stated Maturity, discounting to the Redemption Date quarterly at a discount rate equal to (a) 67% of the US-ISDA-Swap Rate (for the Designated Maturity which is closest to the Median Maturity for such Stated Maturity, in the case of Series 2006B Bonds, or the Stated Maturity thereof, in the case of Series 2006C Bonds) appearing on Reuters at 11:00 a.m. New York City time two U.S. Government Securities Business Days prior to the first mailing of notice of such redemption, as all such terms are defined in the initial Senior Rate Swaps, plus (b) 0.25% per annum.

“**Stated Maturity**” when used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or the day on which such installment of interest is due and payable.

“**Start-Up Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Subordinate Administrator Fees**” means the portion of fees payable by the Issuer to the Administrator pursuant to the Administration Agreement that are referred to therein as “Subordinate Fees.”

“**Subordinated Expenses**” means those Operating Expenses and Program Expenses (other than Deferred Administrator Fees and Subordinate Administrator Fees) either (1) the right to payment of which is subordinated to the timely payment of principal of and interest on the Bonds, the Swap Agreements, and the Reserve Loans pursuant to the terms of any agreement between the Issuer, the Administrator, or the Trustee and the Person to whom such payment is owed or (2) that are not determinable at the time of preparation of and are in excess of the amounts reflected in the most recent Program Budget delivered to the Trustee pursuant to *Section 10.09*.

“**Subordinate Interest Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Subordinate Lien Bonds**” means the Series 2006C Bonds.

“**Subordinate Principal Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Subordinate Program Expense Account**” means the account within the Sinking Fund so defined in *Section 4.01A*.

“**Subordinate Rate Swap**” means the ISDA Master Agreement (including the related Schedule), dated as of December 1, 2006, and the initial Confirmation thereunder, dated December 4, 2006, specifying the smallest notional amount, between the Issuer and Merrill Lynch Capital Services, Inc., and the Guaranty thereof by Merrill Lynch & Co., Inc., each as amended from time to time in accordance with the applicable provisions thereof and hereof, and any replacement therefor entered into in accordance with the applicable provisions hereof.

“**Subordinate Rate Swap Reserve Fund**” means the special fund of the Issuer so defined in and established in trust with the Trustee pursuant to *Section 4.01A*.

“**Subordinate Rate Swap Reserve Requirement**” means an amount equal to \$103,000 reduced as of each Redemption Date for Subordinate Lien Bonds by the product of (1) such amount (as so reduced on each

prior such Redemption Date) and (2) a fraction, the numerator of which is equal to the aggregate principal amount of Subordinate Lien Bonds to be redeemed on such Redemption Date and the denominator of which is equal to the aggregate principal amount of Subordinate Lien Bonds Outstanding immediately prior to such Redemption Date.

“**Surplus Account**” means the account within the Revenue Fund so defined in *Section 4.01B*.

“**Swap Agreement**” means the Price Swap or the Rate Swap.

“**Swap Provider**” means the Price Swap Provider or the Rate Swap Provider.

“**Swap Reserve Fund**” means the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund or the Subordinate Rate Swap Reserve Fund.

“**Taxable Investment**” means any investment of Gross Proceeds of the Bonds, including time and demand deposits, other than:

(1) **Non-AMT Tax-Exempt Obligations:** an obligation the interest on which is excluded from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes (or, when such obligation was issued, was purported by the evidence of such obligation to be so excluded) and not a preference item, as defined in section 57 of the Code, and

(2) **Tax-Exempt Mutual Funds:** an interest in a regulated investment company to the extent that at least 95% of the income to the holder of such interest is excluded from gross income under section 103(a) of the Code and is not such a preference item.

“**Termination Event**” has the meaning stated in the Prepaid Contract.

“**Three-Month LIBOR Rate**” for each interest period from and including the Issue Date or any Interest Payment Date for Series 2006B Bonds or Series 2006C Bonds to and excluding the next such Interest Payment Date means the rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers’ Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the day that is two London Banking Days preceding the first day of such period, *except* that, if such rate does not appear on such page, the “**Three-Month LIBOR Rate**” means a rate determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m. London time, on the day that is two London Banking Days preceding the first day of such period, to prime banks in the London interbank market by four major banks in the London interbank market (herein referred to as the “*Reference Banks*”) selected by the Calculation Agent. The Calculation Agent shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the Three-Month Libor Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the day that is two London Banking Days preceding the first day of such period for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity; *provided, however*, that if the banks in New York City selected by the Calculation Agent are not then quoting rates for such loans, then the “**Three-Month LIBOR Rate**” for the ensuing interest period will mean the Three-Month LIBOR rate in effect in the immediately preceding interest period. Notwithstanding the foregoing, when used with respect to the interest period extending from the Issue Date to the first Interest Payment Date for the Series 2006B Bonds and Series 2006C Bonds, “**Three-Month LIBOR Rate**” means (1) the rate determined for such interest period in accordance with the foregoing provisions of this definition, plus the product (if positive) or less the product (if negative) of (2) 87/92 times the difference obtained by subtracting the rate described in *clause (1)* of this sentence from the rate determined for such interest period in accordance with the foregoing provisions of this definition, but applied as if each reference to “three-month maturity” were to “six-month maturity”.

“*Trustee*” means the Person named as the “*Trustee*” in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “*Trustee*” shall mean such successor, including in each case its agents duly appointed hereunder unless the context clearly requires otherwise.

“*Trust Estate*” has the meaning stated in the habendum to the Granting Clauses.

“*Vice President*” when used with respect to any Person means any vice president thereof, whether or not designated by a number or a word added to the title.

“*Yield*” of:

(1) ***Taxable Investments:*** Taxable Investments acquired with (or representing an investment of) Gross Proceeds of the Bonds of any issue (or money replaced thereby) on or before any date means the actuarial “yield” of all such Taxable Investments, as “yield” is defined in and determined in accordance with Section 1.148-5 of the Regulations, and

(2) ***Bonds:*** the Bonds of any issue means the actuarial “yield” of the Bonds of such issue, as defined in Section 1.148-4 of the Regulations.

* * *

SECTION 1.10. *Limitation on Liability of Issuer.*

No provision of this Indenture shall require the Issuer to expend or risk its own funds (other than any such funds included or required to be included in the Trust Estate) or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, and all expenses of the Issuer in carrying out its obligations under this Indenture shall be payable solely from and to the extent of the funds and other property of the Issuer comprising the Trust Estate. Anything in this Indenture to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it hereby, the exercise by it of all powers granted to it hereunder, the carrying out of all covenants, agreements, and promises made by it hereunder, and liability of the Issuer for all warranties and other covenants herein shall be limited solely to such funds and property, and no other recourse shall be had against the Issuer hereunder or on account of any such duty, obligation, covenant, agreement, promise, or liability; and the Issuer shall not be required to effectuate any of such duties, obligations, powers, or covenants except from, and to the extent of, such funds and property. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of the Issuer shall be subject to the provisions of this Section.

* * *

SECTION 1.13 *References to Swap Providers.*

All provisions of this Indenture providing for the consent, approval, or control of any Swap Provider hereunder shall be effective only for as long as no Event of Default or Termination Event has occurred and is continuing in respect of which such Swap Provider is the Defaulting Party or the sole Affected Party, as such terms are defined in any Swap Agreement to which such Swap Provider is a party.

* * *

ARTICLE FOUR FUNDS

SECTION 4.01. *Funds Generally.*

A. ***Creation in Trust.*** There are hereby created by the Issuer and established in trust with the Trustee the following special funds of the Issuer designated as its:

- (1) “Gas Supply Revenue Bonds Proceeds Fund” (herein referred to as the “*Proceeds Fund*”),
- (2) “Gas Supply Revenue Bonds Costs of Issuance Fund” (herein referred to as the “*Costs of Issuance Fund*”),
- (3) “Gas Supply Revenue Fund” (herein referred to as the “*Revenue Fund*”),
- (4) “Gas Supply Revenue Bonds Arbitrage Rebate Fund” (herein referred to as the “*Rebate Fund*”),
- (5) “Gas Supply Program Debt Service Reserve Fund” (herein referred to as the “*Debt Service Reserve Fund*”);
- (6) “Gas Supply Program Price Swap Reserve Fund” (herein referred to as the “*Price Swap Reserve Fund*”);
- (7) “Gas Supply Program Senior Rate Swap Reserve Fund” (herein referred to as the “*Senior Rate Swap Reserve Fund*”);
- (8) “Gas Supply Program Subordinate Rate Swap Reserve Fund” (herein referred to as the “*Subordinate Rate Swap Reserve Fund*”); and
- (9) “Gas Supply Revenue Bonds Sinking Fund” (herein referred to as the “*Sinking Fund*”) and, within the Sinking Fund, a separate account in respect of each of the Senior Lien Bonds and the Subordinate Lien Bonds, respectively.

B. *Revenue Fund Accounts.* There are hereby created by the Issuer and established in trust under the Trustee the following accounts within the Revenue Fund designated as the:

- (1) Operating Expense Account (herein referred to as the “*Operating Expense Account*”);
- (2) Program Expense Account (herein referred to as the “*Program Expense Account*”);
- (3) Senior Lien Bonds Interest Account (herein referred to as the “*Senior Interest Account*”);
- (4) Senior Lien Bonds Principal Account (herein referred to as the “*Senior Principal Account*”);
- (5) Subordinate Lien Bonds Interest Account (herein referred to as the “*Subordinate Interest Account*”);
- (6) Subordinate Lien Bonds Principal Account (herein referred to as the “*Subordinate Principal Account*”);
- (7) Surplus Account (herein referred to as the “*Surplus Account*”); and
- (8) Start-Up Account (herein referred to as the “*Start-Up Account*”).

C. *Applications.* The money deposited to the respective funds and accounts described in this Article, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Article, subject to *Section 6.06*.

SECTION 4.02. *Proceeds Fund.*

A. *Deposits.* The Issuer and the Trustee shall deposit to the credit of the account within the Proceeds Fund specified below or by Issuer Order:

(1) ***Bond Proceeds:*** all money received by the Trustee in respect of the initial authentication and delivery of Bonds hereunder, except any such cash required to be deposited to the Costs of Issuance Fund by *Section 4.03*, to the Debt Service Reserve Fund by *Section 4.06*, to the Price Swap Reserve Fund by *Section 4.08*, to the Senior Rate Swap Reserve Fund by *Section 4.09*, or to the Subordinate Rate Swap Reserve Fund by *Section 4.10*, and

(2) ***Other:*** all other amounts paid to the Trustee by or for the account of the Issuer and specified by Issuer Order to be deposited to the credit of the Proceeds Fund and not otherwise required to be deposited by the provisions of this Article.

B. *Application.* Upon Issuer Order, the Trustee shall withdraw and disburse money in the Proceeds Fund on the Issue Date (1) to credit the amount of \$250,000 to the Surplus Account, (2) to pay the purchase price of Gas purchased under the Prepaid Contract, and (3) to transfer to the Start-Up Account an amount equal to estimated Operating Expenses, Program Expenses, interest expense, and payments pursuant to the Rate Swaps payable by the Issuer prior to the expected receipt of sufficient Revenues pursuant to the Resale Contract and the Swap Agreements to pay such expenses.

SECTION 4.03. *Costs of Issuance Fund.*

A. *Deposit.* The Trustee shall deposit to the credit of the Costs of Issuance Fund the amount of money received by the Trustee in respect of the initial authentication and delivery of Bonds hereunder that is specified by Issuer Order to be deposited to the Costs of Issuance Fund.

B. *Application.* The Trustee shall from time to time withdraw and apply money from the Costs of Issuance Fund upon Issuer Order to pay Costs of Issuance or, when all Costs of Issuance have been paid, to transfer such money to the Revenue Fund.

SECTION 4.04. *Revenue Fund.*

A. *Deposit.* The Trustee shall deposit to the credit of the Revenue Fund:

(1) ***Revenues:*** all Revenues (other than payments made by the Prepaid Seller to the Issuer due to a Termination Date or Reduction Event, as therein defined, pursuant to the Prepaid Contract, which shall be deposited directly to the Sinking Fund) immediately upon receipt, including all net income earned from the investment of any funds held by the Trustee hereunder,

(2) ***Transfers:*** all money transferred to the Revenue Fund from the Debt Service Reserve Fund pursuant to *Section 4.06B*, the Price Swap Reserve Fund pursuant to *Section 4.08B*, the Senior Rate Swap Reserve Fund pursuant to *Section 4.09B*, or the Subordinate Rate Swap Reserve Fund pursuant to *Section 4.10B*,

(3) ***Start-Up Expenses:*** for direct credit to the Start-Up Account all money transferred thereto pursuant to *Section 4.02*, and

(4) ***Other:*** all other amounts paid to the Trustee, specified by Issuer Order to be deposited to the credit of the Revenue Fund, and not required to be deposited otherwise by the provisions of this Article.

The Issuer shall use reasonable efforts to cause all Revenues to be paid directly to the Trustee for its account and shall immediately deposit with the Trustee all Revenues received by the Issuer.

The Issuer shall promptly notify the Trustee of any default by the Prepaid Seller in payment of any of its obligations under *Section 2.05* of the Prepaid Contract. The Trustee shall promptly make claim under the applicable Guaranty upon receiving any such notice or failure to receive any payment due to the Issuer from the Prepaid Seller under *Section 3.03* or *3.04* of the Prepaid Contract or from the Rate Swap Provider under the Rate Swap by the time required to enable the Guarantor to make payment on the due date.

B. *Application and Credit to Accounts.* The Trustee shall apply money held for the credit of the Revenue Fund and not credited to any account thereof (a) immediately upon receipt, to transfer to the Senior Interest Account all money received by or for the account of the Issuer pursuant to the Senior Rate Swap, (b) *subject to Section 4.11A*, from time to time to credit to the Operating Expense Account the amount necessary to pay all Operating Expenses and Program Expenses (other than Subordinated Expenses) invoiced to (or otherwise due and payable by) the Issuer, (c) on the last business day before each March 15, June 15, September 15, and December 15, to credit to the Senior Interest Account or the Senior Principal Account the amount necessary, after all other credits made to such accounts, to pay principal of and interest on the Senior Lien Bonds due on such Interest Payment Date, and then to credit to the Operating Expense Account, after all other credits made thereto, the amount necessary to pay all amounts payable by the Issuer under the Senior Rate Swap due on such day, and (d) to the Debt Service Reserve Fund, *first*, ratably to the Price Swap Reserve Fund and the Senior Rate Swap Reserve Fund, *second*, and to the Subordinate Rate Swap Reserve Fund, *third*, on the date of receipt of any late payment from MuniGas under the Resale Contract, the lesser of the amount of such payment or the amount theretofore transferred from such Fund on account of such late payment and not theretofore restored to such Fund.

On the last business day of each calendar month, after any release required by *Subsection J* of this Section and any transfers to the Revenue Fund required by any other Section of this Article and *subject to Section 4.11A*, the Trustee shall credit or apply money held for the account of the Revenue Fund and not credited to any account thereof as follows, in the following order, until all such money is depleted:

(1) ***Operating/Program Expense Accounts:*** *first*, to credit to (a) the Operating Expense Account, *first*, the amount specified by Issuer Order as necessary to pay or accrue all Operating Expense (other than Subordinated Expenses) invoiced to (or otherwise due and payable by) the Issuer or accrued in such month, less all amounts previously credited to the Operating Expense Account in such month, and (b) the Program Expense Account, *second*, the amount specified by Issuer Order to pay or accrue all Program Expenses (other than Subordinated Expenses, Deferred Administrator Fees, and Subordinate Administrator Fees) invoiced to (or otherwise due and payable by) the Issuer or accrued in such month,

(2) ***Senior Interest Account:*** *second*, to the Senior Interest Account, an amount equal to (a) the amount specified opposite such month under “Senior Interest Account – Total” in *Exhibit B*, as reduced from time to time in accordance with *Section 3.02H*, plus (b) if such month is the last month before an Interest Payment Date for Senior Lien Bonds, any additional amount required to produce a balance therein equal to (i) the interest to become due on the Outstanding Senior Lien Bonds on such Interest Payment Date, plus (ii) all amounts payable by the Issuer in the immediately succeeding month under the Senior Rate Swaps, less (iii) all amounts to be received by the Issuer in such succeeding month under the Senior Rate Swaps,

(3) ***Rebate Fund:*** *third*, to the Rebate Fund, the amount specified by Issuer Order to be necessary to accrue for amounts payable by the Issuer pursuant to *Section 10.11J* or, if greater, the monthly amount specified in each Accountant’s certificate delivered to the Trustee pursuant to *Section 10.11J*,

(4) ***Senior Principal Account:*** *fourth*, to the Senior Principal Account, an amount equal to (a) the amount specified opposite such month under “Senior Principal Account – Total” in *Exhibit B*, as reduced from time to time in accordance with *Section 3.02H*, plus (b) if such month is the last month before December 15, the amount, if any, required to produce a balance therein equal to the aggregate Amortized

Value of Outstanding Series 2006A Bonds, and the aggregate principal amount of Outstanding Series 2006B Bonds, that either (i) have a Stated Maturity or are scheduled to be redeemed pursuant to *Section 3.02A* on such December 15 or (ii) were scheduled to be, but were not, redeemed on a prior such Redemption Date,

(5) **Price Swap Payments:** *fifth*, to the Operating Expense Account, all amounts due and unpaid, or to become due in the following month, on the Price Swap,

(6) **Debt Service Reserve Fund:** *sixth*, to the Debt Service Reserve Fund following any transfer or disbursement of money credited to the Debt Service Reserve Fund pursuant to *Clause (1)* of *Section 4.06B*, an amount equal to the sum so transferred or disbursed, until the balance thereof is equal to the Debt Service Reserve Requirement,

(7) **Swap Reserve Funds:** *seventh*, to the Price Swap Reserve Fund or the Rate Swap Reserve Fund, as applicable, following any transfer or disbursement of money credited to such Swap Reserve Fund pursuant to *Clause (1)(a)* of *Section 4.08B* or *Clause (1)(a)* of *Section 4.09B*, the amount required to cause the balance of such Swap Reserve Fund to equal the Price Swap Reserve Requirement or the Rate Swap Reserve Requirement, respectively,

(8) **Reserve Loan and Subordinate Lien Bonds Interest:** *eighth*, to the Subordinate Interest Account, an amount equal to (a) the amount specified opposite such month under “Subordinate Interest Account” in *Exhibit B*, as reduced from time to time in accordance with *Section 3.02H*, plus (b) the amount required to accrue the interest to become due on the Reserve Loans on the next Interest Payment Date therefor in monthly installments proportionate to the amounts described in *Clause (8)(a)* of this Subsection, plus (c) any additional amount required to produce a balance therein equal to unpaid interest, if any, then due (or to become due in the following month) on the Reserve Loans and Outstanding Subordinate Lien Bonds, and amounts payable by the Issuer in the following month on the Subordinate Rate Swap,

(9) **Reserve Loan and Subordinate Lien Bonds Principal:** *ninth*, to the Subordinate Principal Account, an amount equal to (a) the amount required to accrue the principal to become due on the Reserve Loans on the next December 15 in monthly installments proportionate to the amounts described in *Clause (8)(a)* of this Subsection, plus (b) the amount required to pay any Redemption Price on Subordinate Lien Bonds then due pursuant to *Section 3.02E* and not provided for pursuant to *Section 4.07B*, plus (c) if such month is the last month preceding the Stated Maturity of any Reserve Loan or Outstanding Subordinate Lien Bond, the principal sum of such Reserve Loan or the Outstanding Subordinate Lien Bonds to become due at such Stated Maturity,

(10) **Subordinate Rate Swap Reserve Fund:** *tenth*, to the Subordinate Rate Swap Reserve Fund following any transfer or disbursement of money credited to the Subordinate Rate Swap Reserve Fund pursuant to *Clause (1)(a)* of *Section 4.10B*, the amount required to cause the balance of the Subordinate Rate Swap Reserve Fund to equal the Subordinate Rate Swap Reserve Requirement,

(11) **Subordinate Expenses:** *eleventh*,

(a) **Program Expense Fund:** the Program Expense Account, *first*, if the most recent Program Budget delivered to the Trustee pursuant to *Section 10.09* projects timely payment and redemption of the Outstanding Bonds and compliance with *Section 10.10* in each year until all Bonds are budgeted to be paid or redeemed, the amount specified by Issuer Order to pay or accrue all Program Expenses that are Subordinated Expenses, Subordinate Administrator Fees, or Deferred Administrator Fees and are invoiced to (or otherwise due and payable by) the Issuer or accrued in such month, and

(b) **Operating Expense Account.** the Operating Expense Account, *second*, the amount specified by Issuer Order as necessary to pay or accrue all unpaid Operating Expense which are Subordinated Expenses and are invoiced to (or otherwise due and payable by) the Issuer or accrued in such month, and

(12) **Surplus: twelfth**, if such day is the last month before December 15, to the Surplus Account, any remaining balance of money then credited to the Revenue Fund and not credited to any account thereof.

C. **Operating Expense Account.** Subject to *Section 4.11A*, the Trustee shall apply money in the Operating Expense Account upon Issuer Request to pay (1) the Operating Expenses (other than Subordinated Expenses), *first*, (2) amounts due from the Issuer to the Price Swap Provider under the Price Swap and to the applicable Rate Swap Provider under the Senior Rate Swaps, *second*, and (3) the Operating Expenses which are Subordinated Expenses, *third*.

D. **Program Expense Account.** Subject to *Section 4.11A*, the Trustee shall apply money in the Program Expense Account upon Issuer Request to pay the Program Expenses (other than Subordinated Expenses, Deferred Administrator Fees, and Subordinate Administrator Fees), *first*, and the Program Expenses which are Subordinated Expenses, Deferred Administrator Fees, or Subordinate Administrator Fees, *second*.

E. **Senior Interest Account.** The Trustee shall apply money credited to the Senior Interest Account on the last business day before each Interest Payment Date for Outstanding Senior Lien Bonds (1) to set aside or deposit in trust with the Paying Agent sufficient money to pay the interest on the Outstanding Senior Lien Bonds coming due on such Interest Payment Date and (2) after setting aside an amount equal to interest accrued on the Senior Lien Bonds from the most recent Interest Payment Date therefor to such Interest Payment Date, to transfer to the Operating Expense Account an amount equal to payments then due from the Issuer to the applicable Rate Swap Provider pursuant to the Senior Rate Swaps.

F. **Senior Principal Account.** The Trustee shall apply money credited to the Senior Principal Account on each scheduled Redemption Date for and Stated Maturity of Outstanding Senior Lien Bonds to set aside or deposit in trust with the Paying Agent sufficient money to pay the principal of such Bonds and the Redemption Price of such Bonds pursuant to *Section 3.02A* then due.

G. **Subordinate Interest Account.** The Trustee shall apply money credited to the Subordinate Interest Account on the last business day before each Interest Payment Date for a Reserve Loan or Outstanding Subordinate Lien Bonds to set aside or deposit in trust with the Paying Agent sufficient money to pay the interest on the Reserve Loans, *first*, and the interest on the Outstanding Subordinate Lien Bonds and amounts payable by the Issuer under the Subordinate Rate Swap, *second*, then coming due, all *subject* to *Section 4.11B*.

H. **Subordinate Principal Account.** The Trustee shall apply money credited to the Subordinate Principal Account on the Stated Maturity of each Reserve Loan and the Outstanding Subordinate Lien Bonds to set aside or deposit in trust with the Paying Agent sufficient money to pay the principal of such Reserve Loan, *first*, and such Bonds, *second*, then due, whether at Stated Maturity or by call for redemption or declaration of acceleration, except to the extent provided for pursuant to *Section 4.07B*, all *subject* to *Section 4.11B*.

I. **Surplus Account.** The Trustee shall apply money credited to the Surplus Account on the last business day of each calendar month:

(1) **Monthly Deficiencies:** *first*, to transfer to the Operating Expense Account, *first*, the Program Expense Account, *second*, the Senior Interest Account, *third*, the Rebate Fund, *fourth*, and the Debt Service Reserve Fund, *fifth*, any amount required by *Subsection B* of this Section to be credited thereto (other than to provide for the payment of Subordinate Settlement Amounts, Subordinated Expenses, Subordinate Administrator Fees, or Deferred Administrator Fees) which cannot be made with

other available funds credited to the Revenue Fund but not credited to any other account thereof (after application of *Subsection J* of this Section),

(2) **Annual Deficiencies:** *second*, to transfer to the Senior Principal Account, *first*, the Program Expense Account, *second*, the Operating Expense Account, *third*, and the Debt Service Reserve Fund, *fourth*, the Price Swap Reserve Fund and Senior Rate Swap Reserve Fund, *fifth*, the Subordinate Interest Account, *sixth*, and the Subordinate Principal Account, *seventh*, and the Subordinate Rate Swap Reserve Fund, *eighth*, the respective amounts that would then be required to be credited thereto by *Section 4.04B* if such credit was not limited by available Revenues deposited to the Revenue Fund on such date and not credited to any account thereof, *but* in each case only to the extent that such amounts are not then credited to such respective funds and accounts from other money credited to the Revenue Fund or pursuant to *Clause (1)* of this Subsection, and

(3) **Release of Surplus:** *third*, if no Default or Event of Default exists, on Issuer Order to transfer up to the balance of such funds to MuniGas pursuant to the Resale Contract or to any other corporate instrumentality created with the approval of the Sponsor for the same or substantially similar purposes as the purposes for which the Issuer was created.

The Trustee shall also transfer money credited to the Surplus Fund on Issuer Order at any other time to (a) the Debt Service Reserve Fund or (b) if the balance of the Debt Service Reserve Fund is at least equal to the Debt Service Reserve Requirement, the Swap Reserve Funds.

J. Start-Up Account. The Trustee shall release money credited to the Start-Up Account on the last business day of each calendar month to the portion of the Revenue Fund that is not credited to any account thereof in an amount equal to the amount of Operating Expenses, Program Expenses, interest expense, and payments to the Rate Swap Providers pursuant to the Rate Swaps which are stated in an Issuer Order to be then due and unpaid, or to become due on the following business day, prior to the receipt of sufficient Revenues to pay such expenses.

SECTION 4.05. Rebate Fund.

A. Deposits. The money deposited to the Rebate Fund shall be held in trust and applied solely as provided in this Section, *unless* in the Opinion of Counsel failure to make such application as so provided will not adversely affect any exclusion from gross income of interest on any Bond under the Code. The Trustee shall transfer to the credit of the Rebate Fund each amount required to be transferred thereto pursuant to *Section 4.04B(3)* and each amount credited to the Surplus Account or the Debt Service Reserve Fund and directed by Issuer Order to be transferred thereto pursuant to *Section 4.04I* or *4.06B*.

B. Application. Upon Issuer Order (and in any event within 60 days after each Rebate Calculation Date), the Trustee shall withdraw from the Rebate Fund and pay to the United States of America the amount specified by such Issuer Order. All payments to the United States of America pursuant to this Subsection shall be made by the Trustee for the account and in the name of the Issuer and shall be paid by draft posted by registered United States Mail (return receipt requested), addressed to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255, and accompanied by the relevant Internal Revenue Service Form 8038-T delivered to the Trustee by the Issuer pursuant to *Section 10.11*.

If the Issuer shall deliver to the Trustee (1) an Opinion of Counsel stating that the Bonds of any issue are exempt from the payment of arbitrage rebate pursuant to section 148(f) of the Code in whole or in part and (2) an Officers' Certificate of the Administrator stating the excess of the balance of the Rebate Fund over the amount required to be on deposit therein to provide for payment of the accrued liability of the Issuer in respect of Bonds that do not qualify for such an exemption, the Trustee shall transfer an amount equal to such excess from the Rebate Fund to the Revenue Fund.

C. **Records.** The Trustee shall preserve all statements, forms, and explanations received from the Issuer pursuant to *Section 10.11* and all records of transactions in the Rebate Fund until six years after the retirement of all of the Bonds of the issue to which they pertain.

D. **Reliance on Instructions.** The Trustee may conclusively rely on the instructions of the Issuer with regard to any actions to be taken by it pursuant to this Section and shall have no liability for any consequences of any failure of the Issuer to supply accurate or sufficient instructions.

E. **Modification of Requirements.** If at any time during the term of this Indenture the Issuer or the Trustee desires to take any action which would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other such Person an Opinion of Counsel to the effect that such action shall not adversely affect any exclusion of interest on any Bond from gross income of the owner thereof for federal income tax purposes.

SECTION 4.06. Debt Service Reserve Fund.

A. **Deposits.** The Trustee shall deposit to the credit of the Debt Service Reserve Fund (1) upon authentication and delivery of the initial Bonds, an amount from the proceeds of sale of the Subordinate Lien Bonds equal to the Debt Service Reserve Requirement, (2) all amounts required to be transferred thereto pursuant to *Section 4.04B(6)*, (3) all amounts transferred thereto pursuant to *Section 4.04I*, and (4) all other amounts paid to the Trustee, specified by Issuer Order to be deposited to the credit of the Debt Service Reserve Fund, and not required to be deposited otherwise by the provisions of this Article.

B. **Application.** The Trustee shall apply money held for the credit of the Debt Service Reserve Fund on the last business day of each calendar month:

(1) **To Pay Expenses, Senior Debt Service, and Rebate:** to transfer to the Operating Expense Account, the Program Expense Account, the Senior Interest Account, and the Rebate Fund the amounts required to have been credited thereto pursuant to *Sections 4.04B(1), (2), and (3)* on such day from funds held for the credit of the Revenue Fund and not yet credited to any account thereof, and to the Senior Principal Account the amounts, if any, required to have been credited thereto on such day to pay the principal of the Outstanding Senior Lien Bonds due at the Maturity thereof (except pursuant to *Section 3.02C* or *3.02D*) on the 15th day of the immediately succeeding month, but in each case only to the extent that (a) insufficient funds have been credited to such account or fund pursuant to such Sections on such day or are then credited to the Revenue Fund and available for such purpose pursuant to *Sections 4.04B, 4.04I, and 4.04J*, and (b) amounts so transferred to the Operating Expense Account and Program Expense Account in any month do not exceed the Operating Expenses and Program Expenses (other than Subordinate Expenses) budgeted for such month in the initial Program Budget,

(2) **To Redeem Subordinate Lien Bonds:** if such day is the last business day prior to a Redemption Date described in *Section 3.02C* or *3.02D*, to transfer to the account of the Sinking Fund related to the Subordinate Lien Bonds the amount by which the balance of the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, as the same is reduced on such Redemption Date, and

(3) **To Apply Surplus:** if, after making the foregoing applications, the balance of the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, then to the extent of such excess:

(a) **Subordinate and Deferred Expenses:** to transfer to the Program Expense Account, *first*, and the Operating Expense Account, *second*, all unpaid Program Expenses and Operating Expenses, respectively, which are due and owing, *provided* that the most recent Program Budget delivered to the Trustee pursuant to *Section 10.09* projects timely payment and

redemption of the Outstanding Bonds and compliance with *Section 10.10* in each year until all Outstanding Bonds are budgeted to be redeemed, and

(b) **Surplus:** to transfer to the Revenue Fund any balance of such excess.

SECTION 4.07. *Sinking Fund.*

A. Deposits. The Trustee shall deposit to the account of the Sinking Fund related to the Senior Lien Bonds all payments made by the Prepaid Seller to the Issuer (or the Trustee for its account) on account of any Termination Event or Reduction Event, as therein defined, pursuant to the Prepaid Contract. The Trustee shall deposit to the account of the Sinking Fund related to the Subordinate Lien Bonds all amounts transferred from the Debt Service Reserve Fund, the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund, or the Subordinate Rate Swap Reserve Fund pursuant to *Section 4.06B(2), 4.08B(2), 4.09B(2), or 4.10B(2)*.

B. Application. Subject to *Section 4.11*, the Trustee shall apply money credited to the accounts of the Sinking Fund related to the Senior Lien Bonds and the Subordinate Lien Bonds, respectively, upon Issuer Order, (1) to acquire and cancel Outstanding Bonds of the related series and the Stated Maturities (not exceeding the principal amount) to be redeemed on the next Redemption Date for a price that does not exceed 100% of the principal amount thereof, (2) to set aside or deposit in trust with the Paying Agent the Redemption Price of Bonds of the related series due pursuant to *Section 3.02B, 3.02C, 3.02D, or 3.02E*, or (3) to deposit such money in respect of Outstanding Bonds of the related series pursuant to *Section 5.02*. The Trustee shall apply money in each such account for such purposes in the order in which such money is deposited.

SECTION 4.08. *Price Swap Reserve Fund.*

A. Deposits. The Trustee shall deposit to the Price Swap Reserve Fund (1) upon authentication and delivery of the Bonds, an amount from proceeds of the Subordinate Lien Bonds equal to the Price Swap Reserve Requirement, (2) all amounts required to be transferred thereto pursuant to *Section 4.04B(7) or 4.11A*, (3) all amounts transferred thereto pursuant to *Section 4.04I*, and (4) all other amounts paid to the Trustee, specified by Issuer Order to be credited to the credit of the Price Swap Reserve Fund, and not required to be transferred otherwise by the provisions of this Article.

B. Application. Subject to *Section 4.11A*, the Trustee shall apply money held for the credit of the Price Swap Reserve Fund (1) on the last business day of each month (a) after application of the balance of the Operating Expense Account, to pay to the Price Swap Provider any amounts then due from and remaining unpaid by the Issuer on the Price Swap (other than pursuant to any demand for the transfer of collateral thereunder or for the disposition of distributions or payment of interest on collateral previously transferred to the Issuer thereunder), including any Settlement Amount (as therein defined) payable by the Issuer thereunder, and (b) to transfer to the Revenue Fund any excess of the balance of the Price Swap Reserve Fund over the Price Swap Reserve Requirement, and (2) on the last business day prior to a Redemption Date described in *Section 3.02C or 3.02D*, to transfer to the account of the Sinking Fund related to the Subordinate Lien Bonds the amount by which the balance of the Price Swap Reserve Fund exceeds the Price Swap Reserve Requirement, as the same is reduced on such Redemption Date.

SECTION 4.09. *Senior Rate Swap Reserve Fund.*

A. Deposits. The Trustee shall deposit to the Senior Rate Swap Reserve Fund (1) upon authentication and delivery of the Bonds, an amount from proceeds of the Subordinate Lien Bonds equal to the Senior Rate Swap Reserve Requirement, (2) all amounts required to be transferred thereto pursuant to *Section 4.04B(7) or 4.11A*, (3) all amounts transferred thereto pursuant to *Section 4.04I*, and (4) all other amounts paid to the Trustee, specified by Issuer Order to be credited to the credit of the Senior Rate Swap Reserve Fund, and not required to be transferred otherwise by the provisions of this Article.

B. Application. Subject to *Section 4.11A*, the Trustee shall apply money held for the credit of the Senior Rate Swap Reserve Fund (1) on the last business day of each month (a) to transfer to the Operating Expense Account an amount sufficient to provide for payment to the applicable Rate Swap Provider of any amounts to be due from the Issuer on the Senior Rate Swap on the last business day before the 15th day of the immediately succeeding month after application of the balance of the Senior Interest Account and Operating Expense Account available for that purpose and (b) to transfer to the Revenue Fund any excess of the balance of the Senior Rate Swap Reserve Fund over the Senior Rate Swap Reserve Requirement, and (2) on the last business day prior to a Redemption Date described in *Section 3.02C* or *3.02D*, to transfer to the account of the Sinking Fund related to the Subordinate Lien Bonds, the amount by which the balance of the Senior Rate Swap Reserve Fund exceeds the Senior Rate Swap Reserve Requirement, as the same is reduced on such Redemption Date.

SECTION 4.10 Subordinate Rate Swap Reserve Fund.

A. Deposits. The Trustee shall deposit to the Subordinate Rate Swap Reserve Fund (1) upon authentication and delivery of the Bonds, an amount from the proceeds of sale of the Subordinate Lien Bonds equal to the Subordinate Rate Swap Reserve Requirement, (2) all amounts required to be transferred thereto pursuant to *Section 4.04B(10)* or *4.11A*, (3) all amounts transferred thereto pursuant to *Section 4.04I*, and (4) all other amounts paid to the Trustee, specified by Issuer Order to be credited to the credit of the Subordinate Rate Swap Reserve Fund, and not required to be transferred otherwise by the provisions of this Article.

B. Application. Subject to *Section 4.11A*, the Trustee shall apply money held for the credit of the Subordinate Rate Swap Reserve Fund (1) on the last business day of each month (a) to transfer to the Subordinate Interest Account an amount sufficient to provide for payment to the applicable Rate Swap Provider of any amounts to be due from the Issuer on the Subordinate Rate Swap on the last business day before the 15th day of the immediately succeeding month after application of the balance of the Subordinate Interest Account for that purpose and to provide for the payment of interest then to become due on the Subordinate Lien Bonds and (b) to transfer to the Revenue Fund any excess of the balance of the Subordinate Rate Swap Reserve Fund over the Subordinate Rate Swap Reserve Requirement, and (2) on the last business day prior to a Redemption Date described in *Section 3.02E*, to transfer to the account of the Sinking Fund related to the Subordinate Lien Bonds the amount by which the balance of the Subordinate Rate Swap Reserve Fund exceeds the Subordinate Rate Swap Reserve Requirement, as the same is reduced on such Redemption Date.

SECTION 4.11. Application of Funds During Initial Period and While Event of Default Exists.

A. During Initial Period. Whenever money on deposit in the Operating Expense Account or the Program Expense Account is otherwise required by the provisions of this Article to be applied to pay Operating Expenses, Program Expenses, or amounts due from the Issuer to the Price Swap Provider under the Price Swap or to the applicable Rate Swap Provider under any Rate Swap, such money shall instead be transferred to the following Swap Reserve Fund on the day for such application and an equal amount of money in such Swap Reserve Fund shall be applied on the same date to pay such Operating Expenses, Program Expenses, or amounts due to such Swap Provider:

(1) *first* to the Price Swap Reserve Fund until the cumulative amount so transferred thereto from the Issue Date is equal to the initial balance of the Price Swap Reserve Fund,

(2) *thereafter*, to the Senior Rate Swap Reserve Fund until the cumulative amount so transferred thereto is equal to the initial balance of the Senior Rate Swap Reserve Fund, and

(3) *thereafter*, to the Subordinate Rate Swap Reserve Fund until the cumulative amount so transferred thereto is equal to the initial balance of the Subordinate Rate Swap Reserve Fund,

and thereafter all transfers to the Swap Reserve Funds pursuant to this Section shall be discontinued.

B. *While Event of Default Exists.* While an Event of Default exists while any Senior Lien Bond remains Outstanding, money in the Subordinate Interest Account, the Subordinate Principal Account, and account of the Sinking Fund related to Subordinate Lien Bonds shall be transferred to the Revenue Fund on the last business day of each month and on the last business day before each March 15, June 15, September 15, and December 15, and neither money in any such fund or account nor any other money held hereunder by the Trustee shall be applied or set aside or deposited in trust with the Paying Agents to pay the principal of or interest on any Bonds other than the Senior Lien Bonds.

SECTION 4.12. *Security for Deposits.*

All money held by the Trustee or any Paying Agent hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall, unless the unsecured general obligations of such Person are rated in either of the two highest rating categories (without regard to subcategories) by S&P and Moody's, be continuously secured by the Trustee, for the benefit of the owners of such money, the Bondholders, the Reserve Lenders, and the Swap Providers in any manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; *provided, however*, that it shall not be necessary for any such Person to give such security for the deposit with it of any money to be used to pay principal, premium, if any, or interest which is at the time of such deposit due and payable with respect to any Bonds, or for the Trustee to give security for any money which shall be represented by obligations purchased under the provisions of *Section 4.13* as an investment of such money.

SECTION 4.13. *Investments.*

Unless otherwise specifically provided in this Section, money held for the credit of any fund or account hereunder shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee at the direction of the Issuer in Eligible Investments, and in the absence of any such direction shall be invested in obligations of the Fidelity Treasury Fund No. 695 or such other obligations described in *Clause (8)* of the definition of Eligible Investments in *Section 1.01* as may be specified in writing from time to time by Issuer Order, to the extent permitted hereby.

The Trustee shall continually invest the balances of the Debt Service Reserve Fund, the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund, the Senior Interest Account, the Senior Principal Account, the Subordinate Interest Account, and the Subordinate Interest Account in the respective Investment Contracts, *subject to Section 10.22.*

The Issuer will not direct the Trustee to make any investment of any money in any fund or account held by it hereunder or to sell any investment held in any such fund or account except on the following terms and conditions:

(1) Each such investment shall be made in the name of the Trustee (in its capacity as such) or in the name of a nominee for the Trustee under its complete and exclusive control (or, if, as stated in an Opinion of Counsel, applicable law provides for perfection of pledges of an instrument not evidenced by a certificate or other instrument through registration of such pledge on books maintained by or on behalf of the issuer of such investment, in the name of the Issuer if such pledge is so registered);

(2) The Trustee shall have sole control over such investment, the income thereon, and the proceeds thereof;

(3) Other than the investments described in the immediately preceding *Clause (1)*, any certificate or instrument evidencing such investment shall be delivered to the Trustee or its agent or securities depository; and

(4) The proceeds of each sale of such an investment shall be remitted by the purchaser thereof directly to the Trustee for deposit in the fund or account to which such investment was credited.

If any direction pursuant to this Section is made by telephone, it shall be promptly confirmed in writing delivered to the Trustee.

Notwithstanding anything in this Section to the contrary, however, the Trustee may not invest money held by it hereunder in any one mutual fund described in *Clause (8)* of the definition of Eligible Investments in *Section 1.01* in an amount that exceeds 10% of the total assets of such mutual fund.

All investments made hereunder shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than six months after the date of purchase or, if earlier, the respective dates when the money so invested is expected to be required for the purpose intended.

Obligations so purchased as an investment of any money credited to any fund or any account thereof shall be deemed at all times to be a part of such fund or account. The interest accruing on obligations so purchased and any profit realized from such investment shall be credited to the Revenue Fund, and any loss resulting from such investment shall be charged to the fund or account. The Trustee shall sell at the best price obtainable or present for redemption any obligations so purchased whenever it shall be necessary so to do in order to provide money to make any payment or transfer of money from any such fund or account.

For the purpose of determining the amount on deposit to the credit of any fund or account, obligations in which money in such fund or account shall have been invested shall be computed at the fair market value thereof; *provided, however*, that so long as any such obligation consists of, or is the subject of, an agreement with the Trustee under which the Trustee is effectively guaranteed a net price in the event it must sell or reduce any such obligation for the purposes for which the money invested thereunder may be applied, then the value of such obligation shall be computed at such net price.

The Trustee shall provide to the Issuer monthly statements of the deposits to, disbursements from, gain and earnings or loss from investments held for the credit of, and changes in the balance of each fund and account held by it hereunder. The Trustee shall also provide the Price Swap Provider with a statement of the balance of the Price Swap Reserve Fund, and the applicable Rate Swap Provider with a statement of the balance of the Senior Rate Swap Reserve Fund or Subordinate Rate Swap Reserve Fund, as applicable, monthly and also within three business days after request by the Price Swap Provider or the applicable Rate Swap Provider, respectively.

The Trustee shall not be liable for any loss resulting from any such investment made in accordance with any permitted direction by the Issuer.

SECTION 4.14. *Directions to Trustee.*

The Issuer shall deliver to the Trustee, on or prior to (a) the last business day of each month and (b) the last business day before each March 15, June 15, September 15, and December 15 and before each Redemption Date described in *Section 3.02B, 3.02C, 3.02D, and 3.02E*, an Issuer Order stating each amount to be credited to or applied from each fund and account created pursuant to this Article on such business day. The Issuer shall also deliver to the Trustee, at least five days before any required notice of redemption of Series 2006A Bonds or any optional redemption of Series 2006B Bonds or Series 2006C Bonds, an Issuer Order stating the Redemption Price of such Bonds. The Executive Director of the Issuer shall sign and deliver each such Issuer Order if the same is not signed and delivered by another authorized officer.

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**ARTICLE FIVE
DEFEASANCE**

SECTION 5.01. *Payment of Indebtedness; Satisfaction and Discharge of Indenture.*

Whenever the following conditions shall exist, namely:

A. *Bonds Paid or Provided For:* all Bonds theretofore authenticated and delivered have been canceled by the Trustee or delivered to the Trustee for cancellation, excluding, however:

(1) ***Nonpresented Bonds:*** Bonds for the payment of which money has theretofore been deposited in trust with the Trustee or a Paying Agent pursuant to *Article Four* and thereafter paid to the Issuer as provided in *Section 10.03*,

(2) ***Replaced Bonds:*** Bonds alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in *Section 3.05*, *except* for any such Bond which, prior to the satisfaction and discharge of this Indenture, has been presented to the Trustee with a claim of ownership and enforceability by the Holder thereof and where enforceability has not been determined adversely against such Holder by a court of competent jurisdiction,

(3) ***Gross Cash Defeasance:*** Bonds, other than those referred to in the foregoing Clauses, for the payment or redemption of which the Issuer has deposited or caused to be deposited with the Trustee at the Maturity thereof in trust for such purpose funds in an amount sufficient to pay and discharge the entire indebtedness on such Bonds for principal (and premium, if any) and interest to such Maturity, and

(4) ***Net Cash Defeasance:*** Bonds deemed no longer Outstanding as a result of the deposit or escrow of money or Governmental Obligations or both as described in *Section 5.02*;

B. *Other Sums Paid:* the Issuer has paid or caused to be paid the Reserve Loans and all other sums payable by the Issuer hereunder and under the Swap Agreements; and

C. *Opinion of Counsel:* there has been delivered to the Trustee an Opinion of Counsel stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with;

then, upon Issuer Request, this Indenture and the lien, rights, and interests created hereby shall cease, determine, and become null and void (*except* as to any surviving rights of transfer or exchange of Bonds herein or therein provided for), and the Trustee and each co-trustee and separate trustee, if any, then acting as such hereunder shall, at the expense of the Issuer, execute and deliver a termination statement and such instruments of satisfaction and discharge as may be necessary (in form and substance satisfactory to the Issuer) and pay, assign, transfer, and deliver to the Issuer or upon Issuer Order all cash, securities, and other property then held by it hereunder as a part of the Trust Estate.

In the absence of an Issuer Request as aforesaid, the payment of all Outstanding Secured Bonds and the other sums described in *Clause B* of this Section shall not render this Indenture inoperative.

Notwithstanding the satisfaction and discharge of this Indenture the obligations of the Issuer to the Trustee under *Section 7.07* shall survive unless otherwise agreed by the Trustee in writing.

SECTION 5.02. *Defeasance.*

Any Bond or portion thereof shall be deemed to be no longer Outstanding when payment of the principal of (and premium, if any on) such Bond or portion, plus interest thereon to the Maturity thereof (whether

such Maturity is by reason of the Stated Maturity thereof or call for redemption in accordance with the other provisions hereof, if notice of such call has been given or waived or irrevocable arrangements therefor satisfactory to the Trustee have been made), shall have been provided for by depositing for such payment under the terms provided in this Section money and/or Governmental Obligations certified by an Independent certified public accountant of national reputation to mature as to principal and interest in such amounts and at such times as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, *provided* that all fees, compensation, and expenses of the Trustee and Paying Agents pertaining to the Bonds or portions thereof with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. Any such deposit shall be made either with the Trustee or, if notice of such deposit is given to the Trustee, with a state or nationally chartered bank with a minimum combined capital and surplus of \$500,000,000, as escrow agent, with irrevocable instructions to transfer the amounts so deposited and investment income therefrom to the Paying Agent in the amounts and at the times required to pay the principal of (and premium, if any) and interest on the Bonds or portions thereof with respect to which such deposit is made on each Interest Payment Date therefor and at the Maturity thereof. In the event such deposit is made with respect to some but not all of the Bonds then Outstanding, the Trustee shall select the Outstanding Bonds or portions thereof to be benefited by such deposit in the same manner as provided in *Section 11.03* for the selection of Bonds to be redeemed by the Issuer.

Notwithstanding anything herein to the contrary however, no such deposit shall have the effect specified in this Section if made during the existence of an Event of Default, unless made with respect to all of the Senior Lien Bonds then Outstanding or, if none, then all of the Subordinate Lien Bonds then Outstanding.

Any money and Governmental Obligations deposited with the Trustee or such other bank for such purpose shall be held in a segregated account in trust for the Holders of the Bonds with respect to which such deposit is made and, together with any investment income therefrom, shall be disbursed solely to pay the principal of (and premium, if any) and interest on such Bonds when due, *provided* that any amount certified by an Independent certified public accountant of national reputation not to be required for such purpose shall be disbursed upon Issuer Order. No money or Governmental Obligations so deposited pursuant to this Section shall be invested or reinvested *unless* in Governmental Obligations and *unless* such money not invested, such Governmental Obligations not reinvested, and such new investments are together certified by an Independent certified public accountant of national reputation to be of such amounts, maturities, and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment.

At such times as a Bond or portion thereof shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefits of this Indenture, *except* for the purposes of any such payment from such money or Governmental Obligations and as to any remaining rights of transfer or exchange.

Governmental Obligations issued in book entry form shall be deemed deposited with the Trustee or other escrow agent upon the perfection of a security interest therein in favor of such Person.

SECTION 5.03. *Application of Deposited Money.*

Money deposited with the Trustee pursuant to *Section 5.01* or *5.02* shall not be a part of the Trust Estate but shall constitute a separate trust fund for the benefit of the Persons entitled thereto. Subject to the provisions of *Section 10.03*, such money shall be applied by the Trustee to the payment (either directly or through any Paying Agent as the Trustee may determine) to the Persons entitled thereto of the principal (and premium, if any) and interest for the payment of which such money has been deposited with the Trustee.

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**ARTICLE SIX
DEFAULTS AND REMEDIES**

SECTION 6.01. *Events of Default.*

“*Event of Default*”, wherever used herein, means any one of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree, or order of any court or any order, rule, or regulation of any administrative or governmental body):

A. *Bond Payment Default:* default in the payment of any interest upon any Outstanding Senior Lien Bond (or, if none, any Outstanding Subordinate Lien Bond) when such interest becomes due and payable or in the payment of principal of (or premium, if any, on) any Bond at its Maturity; or

B. *Program Document Payment Default:* default by a Swap Provider in the payment of a Swap Agreement or by MuniGas in the payment of any amount due under the Gas Supply Contract, and in either case continuance of such default for a period of five Business Days after the Issuer or the Trustee has given written notice of such default, demanding that it be cured, to the Swap Provider or MuniGas, respectively; or

C. *Covenant Default:* default in the performance, or breach, of any covenant or warranty (other than a covenant or warranty a default in the performance or breach of which is elsewhere in this Section specifically dealt with) of the Issuer in this Indenture and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to the Issuer by the Trustee, or to the Issuer and the Trustee by the Swap Provider or the Holders of at least 10% in principal amount of the Outstanding Bonds with a copy to the Trustee, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “*Notice of Default*” hereunder; or

D. *Involuntary Bankruptcy:* the filing of a petition for relief against the Issuer as debtor, under the Bankruptcy Code or any other applicable federal or state law of similar import, or the entry of a decree or order by a court having jurisdiction in the premises appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of or for the Issuer, or the Trust Estate, or ordering the winding up or liquidation of the affairs of the Issuer, and the continuance of the case commenced by such petition or any such decree or order unstayed and in effect for a period of 90 consecutive days, *unless* such decree or order has been limited so as to remove the Trust Estate from the control, supervision, and jurisdiction of the court entering such decree or order and of such custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official by the end of such period; or

E. *Voluntary Bankruptcy:* the commencement by the Issuer of a voluntary case under the Bankruptcy Code or any other applicable federal or state law of similar import, or the consent or acquiescence by the Issuer to the commencement of such a case under the Bankruptcy Code or any such law or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or the Trust Estate, or the making by the Issuer of an assignment for the benefit of creditors, or the admission by the Issuer in writing of its inability to pay its debts hereunder as they become due, or the taking of corporate action by the Issuer in furtherance of any such action and a court shall not have limited such case, petition, or possession so as to remove the Trust Estate from the control, supervision, and jurisdiction of such court or custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official within 90 days after such commencement, consent, or acquiescence; or

F. *Cross Default:* an “*Event of Default*” or “*Termination Event*”, as therein defined, under any Program Document shall have occurred and be continuing or, if no such “*Event of Default*” or “*Termination Event*” is defined thereunder, default in the performance, or breach, of any covenant or warranty under any Program Document by any party thereto and continuance of such default or breach for

a period of 30 days after there has been given to such party by the Issuer or the Trustee a written notice specifying such default or breach and requiring it to be remedied within such 30-day period.

SECTION 6.02. *Mandatory Redemption; Acceleration of Maturity; Rescission and Annulment.*

If the Price Swap Provider gives written notice to the Trustee of a Termination Event described in *Section 3.01F(3)* of the Prepaid Contract resulting from a default in payment by the Prepaid Seller, the Trustee shall give prompt written notice to the Holders of the Senior Lien Bonds of its intent to designate an Early Termination Date under the Prepaid Contract within 20 days unless directed not to do so by Act of the Holders of a majority in principal amount of the Senior Lien Bonds and, unless so directed, shall designate an Early Termination Date promptly after expiration of such 20-day period.

If an Event of Default occurs and is continuing, then and in every such case the Holders of not less than 25% in principal amount of the Outstanding Bonds or the Trustee may declare the principal of the Outstanding Bonds and accrued interest thereon to be due and payable immediately by written notice to the Issuer, the Trustee (unless given by the Trustee), and the Swap Providers, and upon any such declaration such principal and interest shall become immediately due and payable; *provided, however*, that, except for an Event of Default described in *Section 6.01A*, no such declaration shall be made unless either (1) there are sufficient funds on deposit with the Trustee to pay the principal of and interest on the Senior Lien Bonds then declared to be due and payable or (2) the Holders of 100% in principal amount of the Senior Lien Bonds consent to such declaration.

At any time after such a declaration of acceleration has been made or such acceleration has otherwise occurred hereunder, *but* before any sale of any of the Trust Estate has been made under this Article or any judgment or decree for payment of money due on any Bonds has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in aggregate principal amount of the Outstanding Bonds subject of such acceleration may, by written notice to the Issuer and the Trustee, rescind and annul such declaration and its consequences *if* the Issuer has deposited with the Trustee a sum sufficient to pay:

- A. ***Interest:*** all overdue installments of interest on all Outstanding Bonds,
- B. ***Principal:*** the principal of (and premium, if any, on) any Outstanding Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in the Bonds,
- C. ***Overdue Interest:*** to the extent that payment of such interest is lawful, interest upon overdue installments of interest on the Outstanding Bonds at the rate or rates prescribed therefor in the Bonds, and
- D. ***Obligations to Trustee:*** all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements, and advances of the Trustee and its agents and counsel.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

SECTION 6.03. *Power of Sale; Suits for Enforcement.*

In case the principal of and accrued interest on the Bonds shall have become immediately due and payable by acceleration pursuant to *Section 6.02* and the same shall not have been rescinded and annulled pursuant to such Section, the Trustee in its discretion (*subject* to the provisions of *Section 6.14*) may:

- A. ***Sell Trust Estate:*** sell, subject to any mandatory requirements of applicable law, the Trust Estate as an entirety, or in such portions as shall have been requested in writing by the Required Bondholders or, in the absence of such request, as the Trustee may determine, to the highest bidder at public auction at such place and at such time (which sale may be adjourned by the Trustee from time to

time in its discretion by announcement at the time and place fixed for such sale, without further notice) and upon such terms as the Trustee may fix within the parameters of applicable law; or

B. Pursue Other Remedies: proceed to protect and enforce its rights and the rights of the Bondholders, the Reserve Lenders, and the Swap Providers under this Indenture by sale pursuant to judicial proceedings or by a suit, action, or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in this Indenture or in aid of the execution of any power granted in this Indenture or for the foreclosure of this Indenture or for the enforcement of any other legal, equitable, or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee, the Bondholders, the Reserve Lenders, and the Swap Providers.

* * *

SECTION 6.06. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article, including any proceeds of any sale (after deducting the costs and expenses of such sale, including reasonable compensation to the Trustee, its agents and counsel, and any taxes, assessments, or liens prior to the lien of this Indenture, except any thereof subject to which such sale shall have been made), whether made under any power of sale herein granted or pursuant to judicial proceedings, together with, in the case of an entry or sale or as otherwise provided herein, any other sums then held by the Trustee as part of the Trust Estate, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid, *except* that any balance of the Price Swap Reserve Fund shall be applied first as described in *Clause F(1)* of this Section, any balance of the Senior Rate Swap Reserve Fund shall be applied first as described in *Clause F(2)* of this Section, and any balance of the Subordinate Rate Swap Reserve Fund shall be applied first as described in *Clause H(1)* of this Section:

A. First: to the payment of all amounts due the Trustee under *Section 7.07* and due the Paying Agent and the Bond Registrar in respect of the performance of their duties and functions hereunder;

B. Second: to deposit to the Rebate Fund an amount which, together with the balance then held for the credit of the Rebate Fund, is equal to the excess, if any, of (1) the sum of the Rebate Amounts for the Bonds of each issue as of the date of such application, determined as if such date were a Computation Date for the Bonds of such issue, over (2) all amounts previously remitted to the United States Treasury pursuant to *Section 10.11J*, as specified in a statement signed by an Accountant and delivered to the Trustee;

C. Third: to the payment of all Operating Expense (other than Subordinated Expenses) due and unpaid and, in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid, then to the payment of amounts, without preference or priority, ratably according to the aggregate Operating Expense (other than Subordinated Expenses) so due and unpaid;

D. Fourth: to the payment of all Program Expenses (other than Subordinated Expenses, Deferred Administrator Fees, and Subordinate Administrator Fees) due and unpaid to the Persons to whom such Program Expenses are due and, in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid, then to the payment of amounts, without reference or priority, ratably according to the aggregate of such Program Expenses (other than Subordinated Expenses, Deferred Administrator Fees, and Subordinate Administrator Fees) so due and unpaid;

E. Fifth: to the payment of the whole amount then due and unpaid upon the Outstanding Senior Lien Bonds, for principal (and premium, if any) and interest, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment

thereof is legally enforceable at the respective rate or rates prescribed therefor in such Bonds) on overdue principal (and premium, if any) and on overdue installments of interest (to the extent that payment of such interest is legally enforceable), and, in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Bonds, then to the payment of such amounts, without any preference or priority, ratably according to the aggregate amount so due;

F. Sixth: to the payment of all amounts due and unpaid by the Issuer to (1) the Price Swap Provider under the Price Swap and (2) the applicable Rate Swap Provider under the Senior Rate Swap, and if such proceeds shall be insufficient to pay all such amounts in full, then to the payment of such amounts, without any preference or priority, ratably according to the aggregate amount so due to each;

G. Seventh, to the payment of all amounts due and payable to the Reserve Lenders on the Reserve Loans and, in case such proceeds shall be insufficient to pay the Reserve Loans in full, then to the payment of such amounts, without preference or priority, ratably according to the aggregate amount due on each Reserve Loan;

H. Eighth, to the payment of (1) all amounts due and unpaid by the Issuer to the applicable Rate Swap Provider under the Subordinate Rate Swap and (2) the whole amount then due and unpaid upon the Outstanding Subordinate Lien Bonds, for principal (and premium, if any) and interest, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in such Bonds) on overdue principal (and premium, if any) and on overdue installments of interest (to the extent that payment of such interest is legally enforceable), and if such proceeds shall be insufficient to pay all such amounts in full, then to the payment of the amounts described in *Clauses H(1) and H(2)* of this Section, without any preference or priority, ratably according to the aggregate amount due to such Rate Swap Provider and the Holders of Subordinate Lien Bonds;

I. Ninth: to the payment of all Operating Expenses and Program Expenses which are Subordinated Expenses, Deferred Administrator Fees, or Subordinate Administrator Fees and are due and unpaid and, in case such proceeds shall be insufficient to pay all such amounts in full, then to the payment of amounts, without preference or priority, ratably according to the aggregate amount of such Operating Expenses, *first*, and Program Expenses, *second*, so due and unpaid; and

J. Tenth: to the payment of the balance thereof to the Issuer, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

* * *

SECTION 6.09. *Limitation on Suits.*

Neither any Bondholder nor the Reserve Lenders nor the Swap Provider shall have any right to institute any proceeding, judicial or otherwise, under or with respect to this Indenture, or for the appointment of a receiver or trustee or for any other remedy hereunder, unless:

A. Notice to Trustee: such Person has previously given written notice to the Trustee of a continuing Event of Default;

B. Request of Trustee: the Holders of not less than 25% in principal amount of the Outstanding Bonds of any series, a Reserve Lender, or a Swap Provider shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

C. Offer of Indemnity: such Person has offered to the Trustee reasonable indemnity satisfactory to the Trustee against the costs, expenses, and liabilities to be incurred in compliance with such request;

D. Failure to Proceed: the Trustee for 60 days after the receipt of such notice, request, and offer of indemnity has failed to institute any such proceeding; and

E. No Inconsistent Directions: no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Required Bondholders;

it being understood and intended that neither the Bondholders nor the Reserve Lenders nor the Swap Providers shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb, or prejudice the lien of this Indenture or the rights of any other such Person, or to obtain or to seek to obtain priority or preference over any other such Person or to enforce any right under this Indenture, except in the manner herein provided and for the benefit of all Outstanding Secured Bonds, the Reserve Lenders, and the Swap Providers, as their interests may appear hereunder.

SECTION 6.10. Unconditional Right of Bondholders to Receive Principal, Premium, and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the Stated Maturity expressed in such Bond (or, in the case of redemption, on the Redemption Date), *but* solely from the sources from which such principal, premium, and interest are payable pursuant to the terms of such Bonds, and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder; *provided, however*, that no Bondholder shall be entitled to take any action or institute any such suit to enforce the payment of his Bonds, whether for principal, interest, or premium, if and to the extent that the taking of such action or the institution or prosecution of any such suit or the entry of judgment therein would under applicable law result in a surrender, impairment, waiver, or loss of the lien of this Indenture upon the Trust Estate, or any part thereof, as security for Bonds held by any other Bondholder, the Reserve Loans, or the Swap Agreements.

SECTION 6.11. Restoration of Positions.

If the Trustee, either Swap Provider, any Reserve Lender, or any Bondholder has instituted any proceeding to enforce any right or remedy under this Indenture by foreclosure, entry, or otherwise and such proceeding has been discontinued or abandoned for any reason (other than failure by the Trustee to comply with the terms of this Indenture) or has been determined adversely to any such Person, then and in every such case such Persons shall, subject to any determination in such proceeding, be restored to their former positions hereunder, and thereafter all rights and remedies of such Persons shall continue as though no such proceeding had been instituted.

SECTION 6.12. Rights and Remedies Cumulative.

No right or remedy herein conferred upon or reserved to the Trustee, the Swap Providers, the Reserve Lenders, or the Bondholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

* * *

SECTION 6.14. Control by Holders of Bonds.

The Required Bondholders shall have the right, whenever a Default shall exist,

A. To Require Enforcement: to require the Trustee to proceed to enforce this Indenture, either by judicial proceedings for the enforcement of the payment of the Bonds and the foreclosure of this Indenture, the sale of the Trust Estate, or otherwise or, at the election of the Trustee, by the exercise of the power of entry and/or sale hereby conferred, to enforce observance and performance of the Program

Documents, to enforce any judgment obtained, to collect any other moneys then due from the Issuer hereunder, to exercise any other legal remedies, including remedies of a secured party under the Uniform Commercial Code, and to take other appropriate action to protect and enforce the rights and remedies of the Bondholders, the Reserve Lenders, and the Swap Providers hereunder; and

B. To Direct Proceedings: to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee hereunder;

provided that (1) such direction shall not be in conflict with any rule of law or this Indenture, (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and (3) the Trustee shall not determine that the action so directed would be unjustly prejudicial to any Bondholder which is then eligible to be a Required Bondholder and is not taking part in such direction or, if no obligations with a higher lien priority hereunder remain outstanding, to the Swap Providers or the Reserve Lender. The Trustee shall have no duty or obligation to determine whether any action directed pursuant to this Section would be unjustly prejudicial to the Bondholders not taking part in such direction or to the Reserve Lenders or the Swap Providers.

If an “Event of Default”, as defined in the Price Swap or a Senior Rate Swap, in respect of which the Issuer is the Defaulting Party or a “Termination Event”, as defined in the Price Swap or a Senior Rate Swap, in respect of which the Issuer is the sole Affected Party, occurs and is continuing, then the Price Swap Provider or the applicable Rate Swap Provider, respectively, may exercise all of the powers of the Required Bondholders provided in this Section, and the Issuer shall cause the Trustee to accept each direction of the Price Swap Provider or such Rate Swap Provider given under this Section, *except* as provided in this Section.

SECTION 6.15. Waiver of Past Defaults.

Before any sale of any of the Trust Estate has been made under this Article or any judgment or decree for payment of money due has been obtained by the Trustee as provided in this Article, the Required Bondholders, by Act of such Bondholders delivered to the Trustee and the Issuer, on behalf of the Holders of all the Bonds, with the consent of the Swap Providers and the Reserve Lenders, may waive any past default hereunder and its consequences, except a default:

A. Payment Default: in the payment of the principal of (or premium, if any) or interest on any Bond or the payment of any amount payable by the Issuer pursuant to the Reserve Loans and the Swap Agreements, or

B. Unanimous Consent: in respect of a covenant or provision hereof which under *Article Nine* cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; *but* no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

If an “Event of Default”, as defined in the Price Swap or a Senior Rate Swap, in respect of which the Issuer is the Defaulting Party or a “Termination Event”, as defined in the Price Swap or a Senior Rate Swap, in respect of which the Issuer is the sole Affected Party, occurs and is continuing, then the Price Swap Provider or applicable Rate Swap Provider, as applicable, may exercise all of the powers of the Required Bondholders provided in this Section.

SECTION 6.16. Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Bond by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the

filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, giving due regard to the merits and good faith of the claims or defenses made by such party litigant; *but* the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder or Holders of more than 10% in principal amount of the Outstanding Bonds, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Bond on or after the Stated Maturity expressed in such Bond (or, in the case of redemption, on or after the Redemption Date), *if* in any case such suit is brought in good faith.

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SECTION 6.18. *Suits to Protect the Trust Estate.*

The Trustee shall have the power to institute and to maintain such proceedings as it may deem expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of this Indenture and to protect its interests and the interests of the Bondholders, the Reserve Lenders, and the Swap Providers in the Trust Estate, including the power to institute and 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 security hereunder or be prejudicial to the interests of such Persons or the Trustee.

SECTION 6.19. *Remedies Subject to Applicable Law.*

All rights, remedies, and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law in the premises, and all the provisions of this Article are intended to be subject to all applicable mandatory provisions of law which may be controlling in the premises and to be limited to the extent necessary so that they will not render this Indenture invalid, unenforceable, or not entitled to be recorded, registered, or filed under the provisions of any applicable law.

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**ARTICLE SEVEN
THE TRUSTEE**

SECTION 7.01. *Certain Duties and Responsibilities.*

A. *Prior to Event of Default:* Except during the continuance of an Event of Default,

(1) ***No Implied Duties:*** the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) ***Reliance Upon Documents:*** 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 (including, without limitation, each Officers' Certificate of the Administrator received pursuant to *Section 4.09* and each Issuer Order for the application of funds hereunder), *but* in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee or to be in a specified form or to be executed by specified Persons, the Trustee shall be under a duty to examine the same to determine whether or not they conform to such requirements set forth in this Indenture.

B. *During Event of Default:* In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

C. **Liability:** No provision of this Indenture 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:

(1) **Subsection A Controls:** this Subsection shall not be construed to limit the effect of *Subsection A* of this Section;

(2) **Not Liable for Good Faith Judgment:** the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, *unless* it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) **Not Liable for Following Authorized Directions:** the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Required Bondholders or, if so authorized hereunder, any other Bondholders or a Reserve Lender or Swap Provider 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 Indenture;

(4) **Not Required to Risk Own Funds:** no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it;

(5) **Knowledge of Defaults:** no Default or Event of Default shall be deemed to be known to the Trustee *unless* such Default or Event of Default (a) is described in *Section 6.01A*, (b) consists of the failure by the Issuer to file with or give or furnish to the Trustee by the time specified herein any certificate, notice, direction, or other document or payment which is required by this Indenture to be received by the Trustee by a date certain as a condition to any act hereunder or the failure of any certificate, notice, direction, or other document or payment received by the Trustee hereunder to conform to the requirements hereof, or (c) is specified in written notice given to the Trustee by any Bondholder, a Reserve Lender, or a Swap Provider; and in the absence of any failure or notice described in this *Clause C(5)* the Trustee may assume conclusively that no Default or Event of Default exists other than a Default described in *Clause C(5)(a)* of this Section;

(6) **Further Provisions:** the Trustee shall not be liable for any failure of the Issuer (or any other Person other than the Trustee) to perform any act required of it by this Indenture or any of the agreements contemplated hereby or by any offering document relating to the Bonds or for the loss of any money deposited with any depository (other than the Trustee) in accordance herewith; the immunities and exemptions from liability of the Trustee provided pursuant to this Indenture shall extend to its directors, officers, employees, and agents; the Trustee shall not be obligated to pay interest on any money received by it and held in cash except as the Trustee shall have otherwise agreed with the Issuer; and money held in trust by the Trustee need not be physically segregated from other funds of the Trustee except to the extent required by the terms hereof or by law applicable to the Trustee; and

(7) **Limitation on Obligations in Respect of Security Interests and Liens:** the Trustee shall not be responsible for, and shall have no liability in respect of, (a) the validity, priority, recording, re-recording, filing, or re-filing of this Indenture, any supplemental indenture, any instrument or document of further assurance, any collateral assignment, or any financing statement or amendment thereto or (b) any other action taken or to be taken in connection with the maintenance or preservation of any security interest in or lien upon the Trust Estate.

D. **Sections Controlling.** Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 7.02. *Notice of Defaults; Other Notice Requirements.*

Promptly after the Trustee shall obtain actual knowledge of the occurrence of any Default hereunder, the Trustee shall notify the Issuer, the Reserve Lenders, and the Swap Providers of such occurrence. Within 90 days after the occurrence of any Default hereunder known to the Trustee, the Trustee shall furnish to all Bondholders, as their names and addresses appear in the Bond Register, notice of such Default, *unless* such Default shall have been cured or waived; *provided, however*, that, *except* in the case of a Default in the payment of principal of (or premium, if any) or interest on any Bond, the Trustee shall be protected in withholding such notice to Bondholders if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders.

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SECTION 7.03. *Certain Rights of Trustee.*

Except as otherwise provided in *Section 7.01* hereof,

A. *Reliance on Documents and Other Communication:* the Trustee may rely and shall be protected in acting or refraining from acting upon

(1) any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, telex or other paper, document, or communication reasonably believed by it to be genuine and to have been signed or presented by a proper Person; or

(2) failure of the Trustee to receive any such paper, document, or communication, if prior receipt thereof is required by this Indenture before the Trustee is to take or refrain from taking any action;

B. *Evidence of Action by Issuer:* any request or direction of the Issuer mentioned herein shall be sufficiently evidenced by an Issuer Request or Issuer Order, and any resolution of the Board of Directors shall be sufficiently evidenced by a Board Resolution;

C. *Reliance on Officers' Certificate:* whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering, or omitting any action hereunder, the Trustee (*unless* other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

D. *Reliance on Counsel:* the Trustee may consult with legal counsel and the written advice of such legal counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered, or omitted by the Trustee hereunder in good faith and in reliance thereon (and, in particular, without limiting the generality of this *Section 7.03*, whenever an Opinion of Counsel states that any requirement of this Indenture has been satisfied or that any action applied for may be lawfully or properly done, it shall not be necessary for the Trustee to examine any other documents, or analyze or review any circumstances or conditions, that are covered by such Opinion of Counsel);

E. *Right to Indemnity:* the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Bondholders or of a Reserve Lender or Swap Provider pursuant to this Indenture, *unless* one or more such Persons shall have offered to the Trustee reasonable security or indemnity satisfactory to the Trustee against the costs, expenses, and liabilities which might be incurred by it in compliance with such request or direction;

F. *No Investigation Required:* the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, 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 shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records, and premises of the Issuer, personally or by agent or attorney; and

G. *Action Through Agents:* the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder, *unless* such agent is an Affiliate of the Trustee.

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SECTION 7.05. *May Hold Bonds.*

The Trustee, the Paying Agent, the Bond Registrar, and any other agent appointed hereunder, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer, the Reserve Lenders, and the Swap Providers with the same rights it would have if it were not Trustee, Paying Agent, Bond Registrar, or such other agent.

* * *

SECTION 7.07. *Compensation and Reimbursement.*

The Issuer agrees, *but solely* from and to the extent of the Trust Estate,

A. *Compensation:* to pay to the Trustee, the Bond Registrar, and the Paying Agent from time to time reasonable compensation for all services rendered by them hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

B. *Expenses:* except as otherwise expressly provided herein, to reimburse such Persons upon their request for all reasonable expenses, disbursements, and advances incurred or made by them in accordance with any provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement, or advance as may be attributable to the negligence or bad faith of such Person; and

C. *Indemnity:* to indemnify such Persons for, and to hold them harmless against, any loss, liability, or expense incurred without negligence or bad faith on their part, arising out of or in connection with the acceptance or administration of this trust, the performance of their duties or functions hereunder (including any and all liability and clean-up and associated costs, interest, fees, and penalties imposed upon the Trustee as a result of the application of environmental laws), or the issuance or sale of any Bonds, including the costs and defenses of defending themselves against any claim or liability in connection with the exercise or performance of any of their powers or duties hereunder.

All such payments and reimbursements shall be made with interest at the prime commercial lending rate of the Trustee.

As security for the performance of the obligations of the Issuer under this Section the Trustee shall be secured under this Indenture by a lien on the Trust Estate prior to the Bonds, the Reserve Loans, and the Swap Agreements, and for the payment of such compensation, expenses, reimbursements, and indemnity the Trustee shall have the right to use and apply any trust funds held by it hereunder.

SECTION 7.08. *Corporate Trustee Required; Eligibility.*

There shall at all times be a Trustee hereunder which shall be a commercial bank or trust company 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, having a combined capital, surplus, and undivided profits of at least \$500,000,000, subject to supervision or examination by federal or state authority, and having an office in the State

of Texas or the State of New York. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person 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 immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 7.09. Resignation and Removal; Appointment of Successor.

A. Conditions to Resignation or Removal. 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 7.10*.

B. Resignation. The Trustee may resign at any time by giving written notice thereof to the Issuer, the Reserve Lenders, and the Swap Providers. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

C. Removal by Bondholders or Issuer. The Trustee may be removed at any time (1) by Act of the Required Bondholders delivered to the Trustee, the Issuer, the Reserve Lenders, and the Swap Providers or (2) if no Default exists hereunder, by Issuer Order.

D. Removal for Cause. If at any time:

(1) **Ineligibility:** the Trustee shall cease to be eligible under *Section 7.08* and shall fail to resign after written request therefor by the Issuer, a Reserve Lender, a Swap Provider, or any Bondholder, or

(2) **Incapability:** the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation, or liquidation, then, in any such case, (a) the Issuer by Board Resolution may remove the Trustee, or (b) *subject to Section 6.16*, any Bondholder who has been a bona fide Holder of a Bond for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

E. Appointment of Successor. If the Trustee shall resign, be removed, or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, by a Board Resolution, shall promptly appoint a successor Trustee. In case all or substantially all of the Trust Estate shall be in the possession of a receiver or trustee lawfully appointed, such receiver or trustee, by written instrument, may similarly appoint a successor to fill such vacancy until a new Trustee shall be appointed by the Bondholders. If, within one year after such resignation, removal, or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by the Required Bondholders delivered to the Issuer, the Reserve Lenders, the Swap Providers, and the retiring Trustee, then the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer or by such receiver or trustee. If no successor Trustee shall have been so appointed by the Issuer or the Bondholders and accepted appointment in the manner hereinafter provided, *subject to Section 6.16*, any Bondholder who has been a bona fide Holder of a Bond for at least six months or any Reserve Lender or Swap Provider may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

F. Notice of Resignation, Removal, and Appointment. The Issuer shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee, *but solely* from and

to the extent of funds available for such purpose hereunder, to the Reserve Lenders, the Swap Providers, the Paying Agent, the Bond Registrar, and the Bondholders. Each notice shall include the name of the successor Trustee and the address of its principal corporate trust office.

* * *

**ARTICLE NINE
SUPPLEMENTAL INDENTURES**

SECTION 9.01. *Supplemental Indentures Without Consent of Bondholders.*

Without the consent of the Holders of any Bonds or any Reserve Lender or Swap Provider, the Issuer (when authorized by a Board Resolution) and the Trustee may from time to time enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

A. *To Effect Liens:* to correct or amplify the description of any property at any time subject to the lien of this Indenture, or better to assure, convey, and confirm unto the Trustee any property subject or required to be subjected to the lien of this Indenture, or to subject to the lien of this Indenture additional property; or

B. *To Evidence Succession:* to evidence the succession of another corporation to the Issuer and the assumption by any such successor of the covenants of the Issuer herein and in the Bonds contained; or

C. *To Add Restrictive Covenants:* to add to the covenants of the Issuer for the benefit of the Holders of all of the Bonds, the Reserve Lenders, and the Swap Providers or to surrender any right or power herein conferred upon the Issuer; or

D. *To Permit Book Entry Only Bonds:* to provide for uncertificated Bonds or a modified book-entry system therefor; or

E. *To Make Non-Adverse Changes:* to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions, with respect to matters or questions arising under this Indenture, which shall not be inconsistent with the provisions of this Indenture, *provided* such action shall not adversely affect the interests of the Bondholders, the Reserve Lenders, or the Swap Providers; or

F. *To Change Tax Covenants:* to change any provision of *Section 4.05* or *10.11*, *if* in the Opinion of Counsel such change would not adversely affect any exclusion of interest on any Bond from the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes.

The Trustee may in its discretion determine whether or not the interests of any Bondholder, Reserve Lender, or Swap Provider would be affected by any supplemental indenture, and any such determination shall be conclusive upon every Bondholder, Reserve Lender, and the Swap Provider, whether theretofore or thereafter authenticated and delivered or accepted or secured hereunder. The Trustee shall not be liable for any such determination made in good faith.

SECTION 9.02. *Supplemental Indentures With Consent of Bondholders, Etc.*

With the consent of the Swap Providers, the Reserve Lenders, and the Required Bondholders, the Issuer (when authorized by a Board Resolution) and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Bondholders, the Reserve Lenders, and the Swap Providers under this Indenture; *provided, however*, that (except as permitted by *Section 9.01*) no such supplemental indenture shall, without the consent of the Holder of each Outstanding Bond affected thereby,

A. *Change Stated Maturity or Impair Payment Rights:* change the Stated Maturity of the principal of, or any installment of interest on, any Bond, or reduce the principal amount thereof or the interest thereon, or change any Place of Payment where, or the coin or currency in which, any Bond or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date); or

B. *Reduce Consent Rights:* reduce the percentage in principal amount of the Outstanding Bonds the consent of the Holders of which is required for any such supplemental indenture, or the consent of Holders of which is required for any waiver provided for in this Indenture of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences; or

C. *Enfranchise Disenfranchised Holders:* modify or alter the provisions of the proviso to the definition of the term “Outstanding”; or

D. *Modify Amendment and Waiver Provisions:* modify any of the provisions of this Section or *Section 6.15*, except to increase any percentage provided thereby or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Bond affected thereby; or

E. *Subordinate Liens:* permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any of the Trust Estate or terminate the lien of this Indenture on any property at any time subject hereto or deprive any Bondholder of the security afforded by the lien of this Indenture; or

F. *Modify Sinking Fund Redemption or Tender Rights:* modify any of the provisions of this Indenture in such manner as to affect the rights of the Bondholders to the benefits of the mandatory redemption of Bonds.

The Trustee may in its discretion determine whether or not any Bonds would be affected by any supplemental indenture and any such determination shall be conclusive upon every Bondholder, whether theretofore or thereafter authenticated and delivered hereunder. The Trustee shall not be liable for any such determination made in good faith.

It shall not be necessary for any Act of Bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 9.03. *Execution of Supplemental Indentures.*

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive and, *subject to Section 7.01*, shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the rights, duties, or immunities of the Trustee itself under this Indenture or otherwise. The Trustee shall not enter into any supplemental indenture which affects the rights, duties, or immunities of the Bond Registrar, the Paying Agent, or any other agent under this Indenture without the prior written consent of such Person so affected.

* * *
ARTICLE TEN
COVENANTS
* * *

SECTION 10.04. *Liens.*

The Issuer will not create or incur or suffer or permit to be created or incurred or to exist any mortgage, lien, charge, or encumbrance on or pledge of any of the Trust Estate (except the lien of this Indenture and Permitted Encumbrances) without the written consent of the Swap Providers, the Reserve Lenders, and the Required Bondholders, and should any such mortgage, lien, charge, encumbrance, or pledge hereafter attach to any part of the Trust Estate, the Issuer will cause same to be promptly discharged.

SECTION 10.05. *Taxes.*

The Issuer shall pay or cause to be paid as they become due and payable all taxes, assessments, and other governmental charges lawfully levied or assessed or imposed upon properties constituting a part of the Trust Estate, and (to the extent that such payment will not be contrary to any applicable laws) all taxes, assessments, and other governmental charges lawfully levied or assessed or imposed upon the lien of this Indenture, so that (to the extent aforesaid) the lien of this Indenture shall at all times be wholly preserved at the cost of the Issuer and without expense to the Trustee, the Bondholders, the Reserve Lenders, or the Swap Providers; *provided, however*, that the Issuer shall not be required to pay or cause to be paid any tax, assessment, or other governmental charge to the extent that the amount, applicability, or validity thereof is being contested in good faith by appropriate proceedings.

SECTION 10.06. *Recordation of Indenture.*

The security interest granted by this Indenture in personal property (including intangible property) is governed by Chapter 1208, Texas Government Code, and therefore will be automatically perfected for the term of the Bonds on or before initial authentication and delivery of the Bonds. The Issuer shall cause this Indenture, and all supplemental indentures, financing statements, and other documents, to be recorded, registered and filed and to be kept recorded, registered, and filed in such manner and in such places, and will pay or cause to be paid all mortgage registration, recording, filing, or other taxes and fees, and will comply with all statutes and regulations, as may be required by law to create, perfect, preserve, maintain, and protect the lien of this Indenture on, and the security interest created by this Indenture in, the Trust Estate and the security of the Bondholders, the Reserve Lenders, and the Swap Providers and the rights of the Trustee hereunder as to the Trust Estate. The Trustee may request that the Issuer execute indentures supplemental hereto, financing statements, and other documents that the Trustee believes are or may be necessary to create, perfect, preserve, maintain, or protect the lien of this Indenture or to preserve and defend title to the Trust Estate and the rights of the Trustee, the Bondholders, the Reserve Lenders, and the Swap Providers in and to the Trust Estate against the claims of all Persons or to discharge all taxes or assessments levied or assessed upon the Trust Estate. The Issuer hereby authorizes the Trustee to file financing statements and continuation statements and amendments thereto relative to all or any part of the Trust Estate without the signature of the Issuer where permitted by law and hereby designates the Trustee its agent and attorney-in-fact for such purposes. Such power of attorney is coupled with an interest and is irrevocable, and the Issuer hereby ratifies and confirms all that the Trustee may do by virtue thereof. The Trustee shall cause to be filed any such financing statements, continuation statements, and amendments thereto as may be specified as required to be filed in any Opinion of Counsel delivered to the Trustee that have not theretofore been filed by the Issuer, and the Trustee shall be fully protected in relying on such Opinion of Counsel both as to the necessity of such filings and the procedure therefor and the forms thereof. The foregoing authorization shall not in any respect diminish or alter the obligations of the Issuer under this Section.

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SECTION 10.09. *Program Budgets.*

The Issuer shall deliver a written Program Budget, signed by the Issuer and dated within 30 days prior to the date of delivery, to the Trustee (1) on the date of authentication and delivery of the Bonds, (2) within four months after the close of each fiscal year, (3) within 30 days after written notice from the Trustee to the Issuer that any transfer or credit of funds required by *Section 4.04B* has not been made in full when due, (4) within 15 days

after each increase in the Discount under the Resale Contract, (5) upon execution of each Reserve Loan pursuant to *Section 10.21*, and (6) upon each redemption of Senior Lien Bonds pursuant to *Section 3.02C* or *3.02D*.

Each Program Budget delivered to the Trustee shall project all monthly receipts of Revenues and all monthly payments or accruals of expenditures of funds held or required to be held by the Trustee hereunder (excluding amounts required to be held for the credit of the Program Fund), that are reasonably expected by the Issuer through the expected final Maturity of the Bonds then Outstanding and, without limiting the foregoing, shall project for each month:

A. *Sales Revenue:* receipt of Gas equal to the amount required to be delivered by the Prepaid Seller under the Prepaid Contract (other than pursuant to a Reduction Event or Termination Event), and the gross proceeds from the sale of such Gas at the Discount then in effect or projected under the Resale Contract, less payments to be made (plus payments to be received) by the Issuer under the Price Swap (other than on account of a Reduction Event or Termination Event),

B. *Discount:* the aggregate amount of the Discount at which Gas is to be sold, computed at the Discount then in effect,

C. *Investment Income:* the income to be earned from the investment of funds credited to the Revenue Fund, the Debt Service Reserve Fund, and the Swap Reserve Funds, computed at (1) the rate of interest borne by Eligible Investments in which such funds are then invested (assuming no change in then current indices) for the term of such Eligible Investments and (2) for all periods subsequent to the term of such Eligible Investments, 2% per annum,

D. *Transfers of Surplus Reserves:* all transfers of funds from the Debt Service Reserve Fund pursuant to *Section 4.06B(3)*, the Price Swap Reserve Fund pursuant to *Section 4.08B(1)(b)*, the Senior Rate Swap Reserve Fund pursuant to *Section 4.09B(1)(b)*, or the Subordinate Rate Swap Reserve Fund pursuant to *Section 4.10B(1)(b)*,

E. *Operating Expense:* Operating Expense, as estimated by the Administrator, *excluding* Operating Expense payable from funds transferred from the Start-Up Account,

F. *Program Operating Expenses:* Program Expenses, as estimated by the Administrator, *excluding* Program Expenses that are payable from funds transferred from the Start-Up Account,

G. *Debt Service:* the (1) interest to accrue on the Outstanding Bonds, *less* (a) payments to be received (*plus* payments to be made) by the Issuer pursuant to the Rate Swaps (other than on account of a redemption of Series 2006B Bonds at the option of the Issuer) and (b) the amounts transferred from the Start-Up Account to pay such interest, and (2) deposits to be made to the Principal Account to pay or redeem Outstanding Bonds (which shall not be less than the amounts specified in *Section 4.04B(4)*), and

H. *Transfers:* the amounts to be transferred to the Debt Service Reserve Fund, the Price Swap Reserve Fund, the Senior Rate Swap Reserve Fund, and the Subordinate Rate Swap Reserve Fund and credited to the Surplus Account, in accordance with *Section 4.04B*.

SECTION 10.10. *Rate Covenants.*

The Issuer shall review the Discount monthly and shall reduce the Discount under the Resale Contract from time to time as and to the extent required to budget and receive sufficient Revenue from the sale of Gas purchased under the Prepaid Contract (other than pursuant to a Reduction Event or Termination Event) to pay principal of and interest on the Outstanding Secured Bonds and the Reserve Loans and the net amounts payable by the Issuer under the Swap Agreements when due and to make all deposits required by *Article Four* to the funds and accounts held by the Trustee, other than principal, payments, and deposits due on account of a Reduction Event or Termination Event.

The Issuer shall exercise its right to suspend sales and deliveries, or to terminate, the Resale Contract as therein permitted as and when directed to do so by the Trustee.

For so long as the Issuer suspends sales and deliveries under the Resale Contract, and also after the Issuer terminates the Resale Contract, the Issuer shall employ commercially reasonable efforts to sell all Gas purchased and received by it under the Prepaid Contract for prices sufficient to meet its obligations hereunder, on the Outstanding Secured Bonds and Reserve Loans, and under the Swap Agreements.

SECTION 10.11. Tax Covenants.

A. General. The Issuer shall not take any action or omit to take any action which, if taken or omitted, respectively, would adversely affect the excludability of interest on any Bond from the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. The Issuer and the Trustee shall execute such amendments hereof and supplements hereto (and shall comply with the provisions thereof) as may, in the Opinion of Counsel, be necessary to preserve or perfect such exclusion. The Issuer shall comply with each specific covenant in this Section at all times prior to the last Maturity of Bonds (and, in the case of *Subsection J* of this Section, until compliance therewith in full), *unless* and *until* there shall have been delivered to the Trustee an Opinion of Counsel to the effect that failure to comply with such covenant, either generally or to the extent stated therein, shall not adversely affect the excludability of interest on any Bond from the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes, and thereafter such covenant shall no longer be binding upon the Issuer, generally or to such extent as the case may be, anything in any other Subsection of this Section to the contrary notwithstanding.

B. Representations. All representations, warranties, and certifications made by the Issuer or any officer thereof in connection with the delivery of the Bonds on the Issue Date, including, but not limited to, those representations, warranties, and certifications contained in any certificate related to the federal income tax status of the Bonds, are and shall be true, correct, and complete in all material respects.

C. No Private Use or Payments. Prior to the last Maturity of the Bonds of any issue, (i) the Issuer shall not use or permit the use of Proceeds thereof (or any property acquired, constructed, or improved with Proceeds thereof) directly or indirectly in any Private Business Use, or (ii) the Issuer shall not directly or indirectly impose or accept any charge or other payment for use of Proceeds (or for use of any property acquired, constructed, or improved with Proceeds thereof) in any Private Business Use. As used herein, “*Private Business Use*” means any trade or business carried on by any Person, or any activity of any Person other than a natural person, in each case excluding state and local governments, *unless* such use is merely as a member (and, except possibly for the amount of use and any corresponding rate adjustment, is extended on the same terms as to all other members) of the general public.

For purposes of the foregoing covenant, property is considered to be “*used*” by a Person if:

- (1) **Dispositions:** it is sold or otherwise disposed of, or leased, to such Person;
- (2) **Operation or Management:** it is operated, managed, or otherwise physically employed, utilized, or consumed by such Person, *excluding* operation or management pursuant to an agreement which meets the guidelines set forth in Revenue Procedure 97-13, including any amendments or revisions thereto;
- (3) **Contractual Commitments:** capacity in or output or service from such property is reserved or committed to such Person under a take-or-pay, output, incentive payment, or similar contract or arrangement;
- (4) **Special Services:** such property is used to provide service to (or such service is committed to or reserved for) such Person on a basis or terms which (except possibly for the amount of use

and any corresponding rate adjustment) are different from the basis or terms on which such service is provided (or committed or reserved) to members of the public generally; or

(5) **Burdens and Benefits:** substantial burdens and benefits of ownership of such property are otherwise effectively transferred to such Person, *but* the temporary investment of Proceeds pending application for their intended purposes shall not constitute “*use*” of Proceeds.

Notwithstanding the foregoing, the Issuer may sell Gas received pursuant to *Section 3.03* or *3.04* of the Prepaid Contract for Private Business Use, and may permit MuniGas to sell to the Exchanger/Balancer referred to in the Resale Contract or another Person for Private Business Use, in quantities with a cumulative value (valued at the price payable to the Issuer under the Price Swap for the month of delivery) to any date that does not exceed the lesser of (a) \$15,000,000 or (b) 5% of the cumulative value (as so determined) of all Gas purchased pursuant to the Prepaid Contract (other than pursuant to *Section 3.03* or *3.04* thereof) to such date.

D. No Private Loan. The Issuer shall not use Proceeds of the Bonds of any issue to make or finance loans to any Person other than a state or local government, *excluding* loans consisting of temporary investments of Proceeds pending application for their intended purposes. For purposes of the foregoing covenant, such Proceeds are considered to be “*loaned*” to a Person if (1) property acquired, constructed, or improved with such Proceeds is sold or leased to such Person in a transaction which creates a debt for federal income tax purposes, (2) capacity in or service from such property is committed to such Person under a take-or-pay, output, or similar contract or arrangement, or (3) indirect benefits, or burdens and benefits of ownership, of such Proceeds or such property are otherwise transferred in a transaction which is the economic equivalent of a loan.

E. Use in Qualified Service Areas. The Issuer shall not release, waive, or amend the obligations of MuniGas under *Section 3.09* of the Resale Contract and, if it should know of any breach in any such obligation, shall take such actions as may be necessary to cause MuniGas to observe and perform such obligations. During any suspension and after termination of the Resale Contract, the Issuer shall comply with the provisions of *Section 3.09* of the Resale Contract to the same extent as if it were MuniGas.

The Issuer shall review on a monthly basis the current and cumulative amounts of Gas purchased under the Prepaid Contract and used for a Qualified Use and used for Private Business Use, based on reports from MuniGas while the Resale Contract remains in effect. If either the current or cumulative amount of Qualified Use of such Gas is less than 90% of the total current or cumulative amount of such Gas, or if either the current or cumulative value of such Gas used for Private Business Use exceeds 5% of the total current or cumulative value of such Gas (each determined as described in *Subsection C* of this Section), the Issuer shall (or shall cause MuniGas to) make such inquiries of Municipal Buyers which have executed or are executing Purchase Contracts (as defined in the Cooperative Contract) or Spot Gas Sales Contracts (as defined in the Resale Contract) and letters of intention to purchase Gas from the Issuer or MuniGas (through the Sponsor) as shall be necessary to make a reasonable estimate of the amount of Qualified Use and Private Business Use of Gas to be purchased from the Prepaid Seller pursuant to the Prepaid Contract, based on historical use, demonstrably indicated expected changes in use, and a report from the Administrator or an experienced natural gas dealer as to existing and expected market conditions. If, on the basis of such estimate, the cumulative amount of Qualified Use of such Gas over the term of the Prepaid Contract is reasonably expected to be less than 90%, or if the cumulative value of Private Business Use of such Gas over the term of the Prepaid Contract is reasonably expected to exceed the lesser of 5% or \$15,000,000 (valuing such Gas at the price payable to the Issuer under the Price Swap for the month of delivery), of such amounts, then the Issuer shall obtain the Opinion of Counsel described in *Section 3.02C* and notify the Trustee, at least 45 days before the latest Redemption Date permitted by such Subsection, of the amount of Senior Lien Bonds then required to be redeemed pursuant to such Subsection. For these purposes, the Issuer's expectations will not be reasonable unless such report from the Administrator or such dealer concludes that, based on existing or reasonably expected future natural gas market conditions, the Issuer could not then reasonably expect that at least 90% of such Gas would be used for a Qualified Use or to expect that less than \$15,000,000 or 5% of such Gas (valuing such Gas at the price payable to the Issuer under the Price Swap for the month of delivery) will be used for Private Business Use.

F. Not to Invest at Higher Yield. The Issuer shall not, at any time prior to the final Maturity of the Bonds of any issue, directly or indirectly invest (or direct or permit the Trustee to invest) Gross Proceeds of the Bonds of such issue in any Taxable Investment (or use Gross Proceeds of the Bonds of such issue to replace money so invested), *if* as a result of such investment the Yield of all Taxable Investments acquired with (or representing an investment of) Gross Proceeds of the Bonds of such issue (or money replaced thereby), whether then held or previously disposed of, on or prior to the date of such investment exceeds the Yield of the Bonds of such issue, *excluding* from the foregoing, however, Gross Proceeds and money held for a “*temporary period*” described in Section 1.148-2(e) or 1.148-9(d) of the Regulations, or in a “*reasonably required reserve or replacement fund*” described in (but only to the extent permitted by) Section 1.148-2(f) or 1.148-9(e) of the Regulations, or as less than a “*minor portion*” described in Section 1.148-2(g) or 1.148-9(f) of the Regulations, in each case to the extent (but only to the extent) such Sections are applicable to the Bonds of such issue. The Issuer shall not (and shall not direct the Trustee to) invest Gross Proceeds of the Bonds of any issue in any Taxable Investment that is not of a type traded on an established securities market, within the meaning of section 1273 of the Code, except for investments of the type and made in the manner described in Section 1.148-5(d)(6) of the Regulations.

G. No Federal Guarantees, Etc. The Issuer shall not (nor shall it permit the Trustee to) either (1) use Proceeds of the Bonds of any issue in an amount which exceeds 5% of the proceeds from the sale of the Bonds of such issue (a) to make loans which are guaranteed in whole or in part by the United States or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States, or (b) to invest in any deposit or account in a financial institution to the extent such deposit or account is insured under federal law by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or any similar federally-chartered corporation, or (2) otherwise permit payment of principal of or interest on the Bonds of any issue to be directly or indirectly guaranteed in whole or in part by the United States or any agency or instrumentality thereof, including any entity with statutory authority to borrow from the United States. Notwithstanding the foregoing, however, the Issuer may (and may permit the Trustee to) acquire:

- (1) **Temporary Periods and Reserve Funds:** investments which may be invested without limitation as to Yield pursuant to *Subsection F* of this Section because held for a “*temporary period*” or in a “*reasonably required reserve or replacement fund*” described therein;
- (2) **Direct Issues:** investments issued by the United States Treasury; and
- (3) **Other:** any other investments permitted by regulations of the United States Department of Treasury issued under section 149(b)(3)(B)(v) of the Code.

H. To File Informational Report. The Issuer shall execute and file with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Issue Date occurs (or by such later date as such Secretary may permit for reasonable cause or may prescribe with respect to any portion of such statement), a statement in respect of the Bonds of each issue containing the information and in the form required by section 149(e) of the Code and Section 1.149(e)-1 of the Regulations.

I. Not to Cause Bonds to Become Hedge Bonds. The Issuer shall not (and shall not direct the Trustee to) invest more than 50% of the Proceeds of the Bonds of any issue in Taxable Investments having a substantially guaranteed yield for a period of four years or more, *unless* (1) the Issuer reasonably expects to expend the Proceeds of the Bonds of such issue by the times and in the amounts described in section 149(g)(2) of the Code and agrees to pay and pays legal and underwriting costs associated with the Bonds of such issue in accordance with section 149(f)(3) of the Code or (2) the Bonds of such issue are described in section 149(g)(3)(B) or (C) of the Code.

J. To Rebate Arbitrage Profits.

(1) **To Deliver Documents.** The Issuer shall deliver to the Trustee, within 55 days after each Computation Date for the Bonds of each issue:

(a) **Statement of Rebate Amount:** a statement, signed by an Accountant, stating (i) the Rebate Amount for the Bonds of such issue as of such Computation Date or Redemption Date, taking into account as “computation dates” each Computation Date for the Bonds of such issue, but only such Computation Dates and such Redemption Date, (ii) if such Computation Date is a Rebate Calculation Date for the Bonds of such issue, the minimum portion of such Rebate Amount which must be remitted to the United States Treasury in respect of such Rebate Calculation Date to satisfy the requirements of Section 1.148-3(f) of the Regulations, and (iii) the amount which must be transferred from the Revenue Fund to the Rebate Fund monthly thereafter to accrue within 10 months thereafter a balance in the Rebate Fund equal to the excess, if any, of (A) the sum of the Rebate Amounts for the Bonds of each issue not yet discharged that have been most recently certified by an Accountant pursuant to this Subsection over (B) all amounts previously remitted to the United States Treasury pursuant to *Section 4.06B*; and

(b) **IRS Forms:** if such Computation Date is a Rebate Calculation Date for the Bonds of any issue, an Internal Revenue Service Form 8038-T in respect of the Bonds of such series completed as of such Computation Date or such other form as may be required to be filed by the Regulations.

(2) **To Pay Arbitrage Rebate.** The Issuer shall pay to the United States Treasury, in the manner indicated in *Section 4.06* and solely from and to the extent of funds credited to the Rebate Fund pursuant to the provisions of this Indenture, each amount described in *Clause J(1)(a)(ii)* of this Section and specified in a certificate of an Accountant delivered to the Trustee pursuant to this *Subsection J*, within 60 days after the relevant Rebate Calculation Date.

(3) **To Correct Underpayments.** If the Issuer shall discover or be notified as of any date that any payment made to the United States Treasury in respect of the Bonds of any issue shall have failed to satisfy any requirement of Section 1.148-3 of the Regulations (whether or not such failure shall be due to any default by the Issuer or the Trustee), the Issuer shall (a) deliver to the Trustee a brief written explanation of such failure and any basis for concluding that such failure was not due to willful neglect and (b) direct the Trustee to pay to the United States Treasury from the Rebate Fund, within 180 days after such discovery or notice, the correct Rebate Amount in respect thereof, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

(4) **To Preserve Accounting Records.** The Issuer shall retain all of its accounting records relating to the funds and accounts held hereunder, and all calculations made in preparing the statements described in *Clause (1)(a)* of this Section, for at least six years after the dates of the final Maturity of the Bonds of the applicable issue or the first date on which no Bonds of such issue are Outstanding.

K. Accounting. In complying with the provisions of this Section, the Issuer (1) shall use a reasonable, consistently applied method of accounting for Gross Proceeds of the Bonds of each issue and all investments and expenditures thereof, which shall be consistent with all applicable provisions of Section 1.148-6 and 1.148-9 of the Regulations, and (2) shall not recognize any expenditure of Proceeds of the Bonds of any issue to reimburse an expenditure of the Issuer paid before the Issue Date for the Bonds of such issue unless (a) the Issuer has made a written allocation of such Proceeds to such expenditures in accordance with the provisions of Section 1.150-2(d) of the Regulations within 30 days of such Issue Date or (b) such expenditures are described in Section 1.150-2(f) of the Regulations.

L. “Issue”. As used in this Section (and in the definitions of terms used herein, when such terms are used herein), an “*issue*” of Bonds includes all Bonds treated as part of the same “*issue*” pursuant to Section 1.150-1(c) of the Regulations.

SECTION 10.12. *Corporate Existence.*

Subject to *Article Eight*, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory), and franchises; *provided, however*, that the Issuer shall not be required to preserve any right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the affairs of the Issuer and that the loss thereof is not disadvantageous in any material respect to the Bondholders, the Reserve Lenders, or the Swap Providers.

SECTION 10.13. *To Keep Books; Inspection by Trustee; Financial Reports.*

The Issuer will keep proper books of record and account, in which full and correct entries shall be made of all dealings or transactions of or in relation to the Bonds and the properties, business, and affairs of the Issuer in accordance with generally accepted accounting principles. The Issuer will at any and all times, upon the written request of the Trustee, a Reserve Lender, or a Swap Provider and at the expense of the Issuer, permit such Person by its representatives to inspect the plants and properties, books of account, records, reports, and other papers of the Issuer, and to take copies and extracts therefrom, and will afford and procure a reasonable opportunity to make any such inspection, and the Issuer will furnish to each such Person any and all information as such Person may reasonably request, with respect to the performance by the Issuer of its covenants in this Indenture.

The Issuer will furnish to the Trustee and to Moody's:

A. *Audit Report:* as soon as available, and in any event within four months after the end of fiscal year 2007 (for the period from inception through such year) and each year thereafter, copies of financial statements of the Trust Estate, as at the end of such period, prepared in accordance with generally accepted accounting principles and accompanied by a report and opinion of an Independent Accountant of nationally recognized standing based upon an examination made in accordance with generally accepted auditing standards; and

B. *NRMSIR and SID Filings:* all statements, reports, and other documents provided to any "nationally recognized municipal securities information repository" or "state information depository", each within the meaning of Rule 15c2-12 of the United States Securities and Exchange Commission, promptly after being so provided.

SECTION 10.14. *Use of Trust Moneys and Advances by Trustee.*

If the Issuer shall fail to perform any of its covenants in this Indenture, the Trustee may, at any time and from time to time, use and apply any money held by it and available for such purpose hereunder, or make advances, to effect performance of any such covenant on behalf of the Issuer; and all moneys so used or advanced by the Trustee, together with interest at the rate of the prime commercial lending rate of the Trustee, shall be repaid by the Issuer upon demand and such advances shall be secured under this Indenture as provided by *Section 7.07*. For the repayment of all such advances the Trustee shall have the right to use and apply any money at any time held by it and available for such purpose hereunder, but no such use of trust money or advance shall relieve the Issuer from any default hereunder.

* * *

SECTION 10.16. *Waiver of Certain Covenants.*

The Issuer may omit in any particular instance to comply with any covenant or condition set forth in this Article if, before or after the time for such compliance, the Swap Providers, the Reserve Lenders, and the Required Bondholders shall either waive such compliance in such instance or generally waive compliance with such covenant or condition, *but* no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Issuer and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

SECTION 10.17. *To Maintain Administrator.*

The Issuer will engage a person to perform the function and duties of the “*Administrator*” hereunder at all times while any Bond remains Outstanding or any Reserve Loan or the Swap Agreement remains unpaid. Municipal Energy Resources Partners, Ltd. has been engaged and is hereby appointed for such purpose.

Subject to the provisions of any agreement between the Issuer and the Administrator, the Administrator may at any time resign by giving written notice of such resignation to the Trustee, the Issuer, the Reserve Lenders, and the Swap Providers. Subject to the provisions of any such agreement and the other provisions of this Section, the Issuer may terminate the engagement and appointment of the Administrator by giving written notice of such termination to the Administrator, the Reserve Lenders, the Swap Providers, and the Trustee. No resignation or termination of the engagement and appointment of the Administrator shall become effective *unless* such resignation or termination shall have been consented to by the Swap Providers, the Reserve Lenders, or the Required Bondholders and *until* a successor Administrator shall have been appointed and engaged in accordance with the provisions of this Section.

Upon receiving notice of resignation or upon termination of the appointment and engagement of the Administrator, the Issuer shall promptly appoint and engage a successor Administrator which is an Affiliate of the Administrator or is consented to by the Swap Providers, the Reserve Lenders, or the Required Bondholders.

The Issuer will cause each successor Administrator to execute and deliver to the Trustee an instrument in which such Administrator shall agree with the Trustee and the Issuer that such Administrator will observe and perform the obligations of Administrator hereunder. Subject to the provisions of any agreement between the Issuer and any Administrator, each Administrator shall be paid reasonable compensation for its services hereunder, *but solely* from and to the extent of funds available for such purpose hereunder.

The provisions of *Sections 7.03, 7.04, and 7.05* shall be applicable to the Administrator.

SECTION 10.18. *Maintenance of the Resale Contract.*

The Issuer shall not amend the Gas Supply Contract in any manner or release MuniGas from its obligations under the Resale Contract, *except* with the written consent of the Swap Providers, the Reserve Lenders, or the Required Bondholders, or pursuant to *Section 10.10*.

SECTION 10.19. *Limited Purpose Entity.*

A. *Representations.* The Issuer represents and warrants to the Trustee for the benefit of the Bondholders, the Reserve Lenders, and the Swap Providers that:

(1) ***Arms’ Length Transactions:*** All transactions between the Issuer and the Sponsor and/or the Issuer and the Administrator are upon terms which are reasonable and do not differ from terms that could result from a transaction at arms’ length between other parties;

(2) ***Independent Directors:*** At least one director of the Issuer is not, and will not be, a director, officer, employee, or holder of 10% or more of the equity securities of the Administrator or any affiliate thereof or an officer or employee of the Sponsor or any Affiliate thereof;

(3) ***No Commingling of Funds:*** The Issuer’s funds and assets are not, and will not be, commingled with those of the Sponsor or the Administrator or any Affiliate thereof;

(4) ***No Cross Liability:*** The Issuer will not be liable for the debts or obligations of the Sponsor or the Administrator or any Affiliate thereof, nor will the Sponsor or the Administrator or any Affiliate thereof be liable for the debts or obligations of the Issuer, but nothing in this paragraph shall preclude the Administrator from subordinating its right to payments from the Issuer or Affiliates thereof

to debts owed to other Persons or shall preclude the Issuer or any Affiliate thereof from agreeing to make such payments directly to a creditor of the Administrator;

(5) **Records:** The Issuer shall maintain (a) correct and complete books and records of account and (b) minutes of the meetings and other proceedings of its board of directors; and

(6) **Financial Solvency:** The Issuer is solvent and is not expected to be rendered incapable of meeting its debts as they become due by the transactions contemplated by the Program Documents and, after giving effect to such transactions, the Issuer will not be left with an unreasonably small amount of capital with which to engage in its business; the Issuer does not intend to incur, or believe that it has incurred, debts beyond its ability to pay such debts as they mature; and the Issuer does not contemplate the commencement of insolvency, bankruptcy, liquidation, or consolidation proceedings or the appointment of a receiver, liquidator, conservator, trustee, or similar official in respect of the Issuer or any of its assets.

B. Maintenance of Limited, Discrete Enterprise. While any Bond remains Outstanding:

(1) **Apparent Separate Identity:** The Issuer shall conduct its business solely in its own name through its duly authorized officers or agents so as not to mislead others as to the identity of the Issuer with which those others are concerned, and particularly will use its best efforts to avoid the appearance of conducting business on behalf of the Sponsor or the Administrator or any Affiliate thereof or that the assets of the Issuer are available to pay the creditors of the Sponsor or the Administrator or any Affiliate thereof, and, without limiting the generality of the foregoing, all oral and written communications, including, without limitation, letters, invoices, purchase orders, contracts and any other statements, will be made solely in the name of the Issuer;

(2) **Separate Accounts:** The Issuer shall maintain corporate records and books of account separate from those of the Sponsor and the Administrator or any Affiliate thereof;

(3) **Board Meetings:** The Issuer shall obtain proper authorization from its board of directors of all corporate action requiring such authorization, and meetings of the board of directors of the Issuer shall be held not less frequently than one time per annum;

(4) **Responsibility for Expenses:** Operating expenses and liabilities of the Issuer shall be paid from its own funds;

(5) **Disclosure in Financial Statements:** The annual financial statements of the Issuer shall disclose the effects of the Issuer's transactions in accordance with generally accepted accounting principles and shall disclose that the assets of the Issuer are not available to pay creditors of the Sponsor or the Administrator or any Affiliate thereof;

(6) **Records Maintenance:** The Program Documents and the resolutions, agreements, and other instruments related to the transactions described therein shall be continuously maintained by the Issuer as official records;

(7) **Arm's-Length Relationships:** The Issuer shall use its best efforts to maintain an arm's-length relationship with the Sponsor and the Administrator and will not hold itself out as being liable for the debts of the Sponsor or the Administrator or any Affiliate thereof;

(8) **Separate Assets and Liabilities:** The Issuer shall use its best efforts to keep its assets and its liabilities wholly separate from those of all other entities, including, but not limited to the Sponsor and the Administrator;

(9) **Limitation on Activities:** The Issuer shall not engage in any business or activity other than purchasing gas producing mineral properties and purchasing natural gas for the purpose of selling and delivering natural gas to agencies of the State of Texas and local governments and such operations and other activities as it deems incidental thereto or appropriate to such end;

(10) **No Guarantees or Obligations:** The Issuer shall not guarantee or become obligated for the debts of any other entity or hold out its credit as being available to satisfy the obligations of others, including the Sponsor or the Administrator;

(11) **Limitation of Security Acquisitions:** The Issuer shall not acquire obligations or securities of its partners, members, or shareholders, including the Sponsor or the Administrator;

(12) **Allocation of Office Space:** The Issuer shall allocate fairly and reasonably any overhead for shared office space, if any;

(13) **Separate Office Supplies:** The Issuer shall use separate stationery, invoices, and checks; and

(14) **Limitation on Pledging Assets:** The Issuer shall not pledge its assets for the benefit of any other entity or make any loans or advances to any entity (except as provided in any Program Document).

C. **No Petition.** The Issuer shall not engage in (and shall not institute against, or join any other person in instituting against, the Sponsor) any bankruptcy, reorganization, arrangement, insolvency, or liquidation proceeding, or other proceeding under any bankruptcy or similar law, for one year and a day after the last Maturity of the Bonds.

D. **Limitation on Indebtedness.** The Issuer shall not create, incur, assume, or guaranty any contractual obligation other than the Program Documents and agreements that include a provision substantially to the following effect:

“Anything herein to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it hereby, the exercise by it of all powers granted to it hereunder, the carrying out of all covenants, agreements, and promises made by it hereunder, and liability of the Issuer for all warranties and other covenants herein and all other obligations and liabilities arising hereunder or on account hereof, whether in contract, tort, or otherwise, shall be non-recourse obligations limited solely to, and payable and performable by the Issuer solely from and to the extent of, [*description of funds and property against which recourse may be had, which shall exclude the Trust Estate*], and [*name of counterparty*] shall assert, and there shall be, no other recourse, direct or indirect, against the Issuer or any funds or property of the Issuer hereunder or on account of any such duty, obligation, covenant, agreement, promise, or liability; and the Issuer shall not be required to effectuate any of such duties, obligations, powers, or covenants except from, and to the extent of, such funds and property. [*Name of counterparty*] shall not, for a period of one year and one day following payment in full of all of the Issuer’s Gas Supply Revenue Bonds, Senior Lien Series 2006A, Senior Lien Series 2006B, or Subordinate Lien Series 2006C, institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, reorganization, arrangement, insolvency, or liquidation proceeding under any United States federal or state bankruptcy or similar law, or any proceeding for a receivership under any state law, in respect of any such duty, obligation, covenant, agreement, promise, or liability of the Issuer.”

E. **Limitation on Disposition of Trust Estate.** The Issuer shall not sell, transfer, exchange, or otherwise dispose of any of the Trust Estate except as permitted hereby and by the Program Documents.

SECTION 10.20. *Compliance with and Preservation of Program Documents.*

The Issuer shall observe and perform each and every covenant and obligation on its part to be observed and performed pursuant to the Program Documents, shall employ reasonable efforts to enforce every material covenant and obligation thereunder to be observed and performed by each other party to the Program Documents, and shall not amend, release, or waive compliance with any such covenant or obligation or terminate any Program Document or agree to any successor or assign of or subcontract by any party to a Program Document or fail to extend or replace any Program Document, *unless* otherwise agreed by the Swap Providers (except in the case of a Swap Agreement) or the Required Bondholders.

The Issuer hereby appoints the Trustee, its attorney-in-fact with power to make all demands and bring all actions as such attorney may deem advisable to enforce each and every material covenant and obligation to be observed or performed on the part of any party other than the Issuer pursuant to the Program Documents, without joinder of any other Person. The Issuer shall cooperate with the Trustee in any action to enforce any such covenant or obligation.

SECTION 10.21. *Reserve Loans.*

In the event that the balance of the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement or the balance of the Price Swap Reserve Fund is less than the Price Swap Reserve Requirement or the balance of the Senior Rate Swap Reserve Fund is less than the Senior Rate Swap Reserve Requirement on the first day of any month, the Issuer may borrow up to the amount of the deficiency on the terms described herein and deposit the proceeds of such borrowing to the Debt Service Reserve Fund, the Price Swap Reserve Fund, or the Senior Rate Swap Reserve Fund, as applicable, and the Issuer shall borrow such amount from the Prepaid Seller for such purpose on such terms as and to the extent provided in the Prepaid Contract, unless the Issuer borrows such amount from another Reserve Lender.

Each Reserve Loan shall be payable on such terms as the Issuer may approve or are set forth in the Prepaid Contract, semiannually on the Interest Payment Dates for the Series 2006C Bonds, in amounts which do not exceed the amounts estimated to be available to pay the same in the most recent Program Budget prepared pursuant to *Section 10.09*, and shall mature not later than the Stated Maturity of the Series 2006C Bonds.

Each Reserve Loan shall be payable solely from and to the extent of the Trust Estate and shall be secured hereunder on a basis subordinate to the Senior Lien Bonds and the Swap Agreements.

SECTION 10.22 *Swap Agreements and Investment Contracts.*

Whenever the rating assigned to the senior unsecured long-term debt of the obligor on an Investment Contract by S&P or Moody's is withdrawn or reduced below "AA-" or "Aa3" or "A1/P-1," respectively, the Issuer shall use reasonable efforts to terminate such Investment Contract to the extent permitted thereby and enter into a replacement Investment Contract.

Whenever the Price Swap is terminable by the Issuer in accordance with its terms, the Issuer shall use reasonable efforts to terminate the Price Swap and to replace the Price Swap with another Price Swap with substantially the same terms entered into with a Person the senior long-term unsecured debt of which is rated at least "AA-" by S&P and "Aa3" or "A1/P-1" by Moody's.

* * *

APPENDIX B —

PROPOSED FORM OF OPINION OF BOND COUNSEL

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[date]

WE HAVE ACTED AS BOND COUNSEL to Texas Municipal Gas Acquisition and Supply Corporation I d/b/a TexGas I (the “*Issuer*”) and Municipal Gas Acquisition and Supply Corporation d/b/a MuniGas and TMGC II (“*MuniGas*”) in connection with the issuance of the Issuer’s Gas Supply Revenue Bonds, Senior Lien Series 2006A, Senior Lien Series 2006B, and Senior Lien Series 2006C (the “*Bonds*”) pursuant to an Indenture of Trust and Security Agreement, dated as of December 1, 2006 (the “*Indenture*”), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the “*Trustee*”). The Bonds of each series are issuable in fully registered form in the denominations stated therein, aggregating \$2,417,995,000 in principal amount, mature on December 15 of the years and in the principal amounts stated in the Indenture, unless sooner called for redemption prior to their stated maturity in accordance with the terms and conditions stated therein, and bear interest from the date hereof or from the most recent interest payment date therefor to which interest thereon has been paid or duly provided for, at per annum rates of interest stated in or established in accordance with the provisions of the Indenture. The Bonds are limited recourse obligations of the Issuer, payable solely from and to the extent of the property of the Issuer collaterally assigned and pledged to the Trustee under the Indenture.

WE HAVE EXAMINED a Bond of each series and stated maturity executed or certified to our satisfaction. We have also examined, and in expressing the opinions hereinafter described we rely upon, the representations, warranties, and covenants of the parties thereto contained in the Indenture and the Cooperative Contract and Resale Contract referred to therein; original or certified copies of the proceedings of the board of directors of the Issuer authorizing issuance of the Bonds; certificates of officers of the Issuer and MuniGas relating to the expected use, expenditure, and investment of certain funds of the Issuer, the expected use of natural gas purchased with proceeds of the Bonds, and other material facts within the knowledge of the Issuer and MuniGas, including material facts within the sole knowledge of the Issuer or MuniGas relating to, among other matters, the status of the Bonds under section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the “*Code*”), which we have not independently verified; and such other material and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates.

WE ARE OF THE OPINION, based upon such examination, that, under applicable law of the State of Texas and federal law of the United States of America in force and effect on the date hereof, the Bonds have been duly authorized, executed, authenticated, and delivered and are valid and legally binding limited recourse obligations of the Issuer payable from the sources of funds, and enforceable in accordance with the terms and conditions, described herein and therein, except to the extent that the enforcement thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity.

WE ARE ALSO OF THE OPINION, based upon the foregoing, that under existing law interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, assuming continuing compliance after the date hereof with certain provisions of the Indenture (and the Resale Contract and Cooperative Contract referred to therein and the Spot Gas Sales Contracts referred to in such Resale Contract) affecting the status of the interest on the Bonds under section 103 of the Code, and (2) will not be included in computing the federal alternative minimum taxable income of the owners thereof who are individuals.

WE CALL TO YOUR ATTENTION that interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an “S” corporation or a qualified mutual fund, real estate mortgage investment conduit (REMIC), real estate investment trust (REIT), or financial asset securitization investment trust (FASIT)) is includable in its adjusted current earnings for purposes of calculating its alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain “S corporations” with “subchapter C” earnings and profits, owners of an interest in a FASIT, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for an earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, such tax-exempt obligations

APPENDIX C —

SCHEDULE OF GAS VOLUMES TO BE
DELIVERED UNDER PREPAID CONTRACT

<u>Year Ending</u>	<u>Gas to be Delivered (MMBtus)</u>
12/31/2007	12,840,000
12/31/2008	19,124,000
12/31/2009	20,888,000
12/31/2010	24,106,000
12/31/2011	25,350,000
12/31/2012	26,102,000
12/31/2013	26,876,000
12/31/2014	26,876,000
12/31/2015	26,876,000
12/31/2016	26,960,000
12/31/2017	26,876,000
12/31/2018	26,876,000
12/31/2019	26,876,000
12/31/2020	26,960,000
12/31/2021	26,876,000
12/31/2022	26,876,000
12/31/2023	26,876,000
12/31/2024	26,960,000
12/31/2025	26,876,000
12/31/2026	<u>21,961,000</u>
TOTAL	500,011,000

APPENDIX D —

SCHEDULE OF AMORTIZED VALUES OF FIXED RATE BONDS

Maturity	12/15/2007	12/15/2010	12/15/2011	12/15/2012	12/15/2013	12/15/2014	12/15/2015	12/15/2016	12/15/2017	12/15/2018	12/15/2019	12/15/2020	12/15/2021	12/15/2022	12/15/2023	12/15/2024	12/15/2025	12/15/2026
Par	\$10,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Rate	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%
12/20/2006	101.37%	105.003%	106.009%	106.756%	107.492%	108.198%	108.744%	109.198%	111.779%	112.215%	112.564%	112.946%	113.382%	113.893%	114.368%	114.668%	114.924%	115.138%
1/2/2007	101.33%	104.963%	105.971%	106.721%	107.459%	108.167%	108.716%	109.172%	111.749%	112.187%	112.538%	112.921%	113.358%	113.871%	114.346%	114.648%	114.905%	115.120%
2/1/2007	101.21%	104.866%	105.880%	106.637%	107.381%	108.094%	108.647%	109.108%	111.677%	112.120%	112.475%	112.862%	113.303%	113.818%	114.296%	114.601%	114.860%	115.078%
3/1/2007	101.10%	104.767%	105.786%	106.552%	107.301%	108.019%	108.578%	109.044%	111.603%	112.051%	112.412%	112.803%	113.247%	113.765%	114.245%	114.553%	114.815%	115.035%
4/2/2007	100.98%	104.666%	105.691%	106.464%	107.219%	107.942%	108.507%	108.978%	111.582%	111.982%	112.348%	112.743%	113.190%	113.711%	114.194%	114.505%	114.770%	114.993%
5/1/2007	100.87%	104.572%	105.603%	106.383%	107.144%	107.872%	108.441%	108.918%	111.460%	111.918%	112.289%	112.688%	113.139%	113.662%	114.147%	114.461%	114.729%	114.954%
6/1/2007	100.75%	104.476%	105.512%	106.300%	107.067%	107.800%	108.375%	108.856%	111.390%	111.854%	112.229%	112.632%	113.086%	113.612%	114.101%	114.417%	114.688%	114.916%
7/2/2007	100.63%	104.373%	105.416%	106.212%	106.985%	107.723%	108.303%	108.790%	111.314%	111.783%	112.164%	112.571%	113.029%	113.558%	114.048%	114.368%	114.642%	114.872%
8/1/2007	100.52%	104.275%	105.323%	106.126%	106.905%	107.648%	108.233%	108.725%	111.241%	111.715%	112.100%	112.512%	112.972%	113.504%	113.997%	114.319%	114.596%	114.829%
9/4/2007	100.39%	104.164%	105.218%	106.030%	106.816%	107.564%	108.155%	108.653%	111.158%	111.638%	112.029%	112.445%	112.910%	113.444%	113.940%	114.266%	114.545%	114.781%
10/1/2007	100.28%	104.074%	105.134%	105.953%	106.743%	107.496%	108.092%	108.594%	111.092%	111.577%	111.972%	112.392%	112.859%	113.396%	113.895%	114.223%	114.505%	114.744%
11/1/2007	100.17%	103.975%	105.041%	105.867%	106.664%	107.422%	108.024%	108.531%	111.020%	111.509%	111.910%	112.334%	112.805%	113.344%	113.846%	114.177%	114.462%	114.703%
12/3/2007	100.04%	103.871%	104.942%	105.777%	106.580%	107.344%	107.951%	108.464%	110.943%	111.439%	111.845%	112.273%	112.748%	113.290%	113.794%	114.129%	114.417%	114.661%
1/2/2008	103.773%	104.850%	105.937%	106.733%	107.501%	108.269%	108.833%	109.300%	110.871%	111.371%	111.782%	112.215%	112.693%	113.238%	113.744%	114.082%	114.373%	114.619%
2/1/2008	103.673%	104.756%	105.842%	106.640%	107.420%	108.193%	108.762%	109.234%	110.796%	111.302%	111.717%	112.154%	112.635%	113.183%	113.692%	114.032%	114.326%	114.575%
3/3/2008	103.563%	104.652%	105.739%	106.539%	107.319%	108.092%	108.664%	109.136%	110.715%	111.226%	111.647%	112.088%	112.573%	113.124%	113.636%	113.979%	114.276%	114.528%
4/1/2008	103.468%	104.563%	105.650%	106.450%	107.230%	108.003%	108.576%	109.050%	110.645%	111.161%	111.587%	112.032%	112.520%	113.073%	113.588%	113.934%	114.233%	114.488%
5/1/2008	103.367%	104.468%	105.555%	106.355%	107.135%	107.908%	108.481%	108.955%	110.571%	111.092%	111.523%	111.972%	112.464%	113.020%	113.537%	113.887%	114.189%	114.447%
6/2/2008	103.264%	104.371%	105.458%	106.258%	107.038%	107.811%	108.384%	108.858%	110.495%	111.023%	111.459%	111.913%	112.408%	112.967%	113.487%	113.839%	114.145%	114.405%
7/1/2008	103.165%	104.277%	105.364%	106.164%	106.944%	107.717%	108.290%	108.764%	110.422%	110.954%	111.395%	111.853%	112.352%	112.914%	113.436%	113.792%	114.100%	114.363%
8/1/2008	103.059%	104.178%	105.265%	106.065%	106.845%	107.618%	108.191%	108.665%	110.343%	110.881%	111.327%	111.789%	112.291%	112.856%	113.381%	113.739%	114.051%	114.316%
9/2/2008	102.952%	104.076%	105.163%	105.963%	106.743%	107.516%	108.089%	108.563%	110.262%	110.806%	111.257%	111.724%	112.230%	112.797%	113.325%	113.687%	114.001%	114.270%
10/1/2008	102.851%	103.982%	105.069%	105.869%	106.649%	107.422%	107.995%	108.469%	110.188%	110.737%	111.193%	111.664%	112.174%	112.744%	113.274%	113.639%	113.956%	114.228%
11/3/2008	102.742%	103.879%	104.966%	105.766%	106.546%	107.319%	107.892%	108.366%	110.108%	110.662%	111.124%	111.600%	112.113%	112.686%	113.220%	113.588%	113.908%	114.182%
12/1/2008	102.647%	103.790%	104.877%	105.677%	106.457%	107.230%	107.803%	108.277%	110.039%	110.598%	111.065%	111.545%	112.061%	112.637%	113.173%	113.544%	113.867%	114.144%
1/2/2009	102.539%	103.687%	104.774%	105.574%	106.354%	107.127%	107.700%	108.174%	109.958%	110.524%	110.996%	111.480%	112.000%	112.579%	113.118%	113.492%	113.818%	114.098%
2/2/2009	102.432%	103.586%	104.673%	105.473%	106.253%	107.026%	107.600%	108.074%	109.878%	110.449%	110.926%	111.414%	111.938%	112.520%	113.061%	113.439%	113.768%	114.051%
3/2/2009	102.325%	103.486%	104.573%	105.373%	106.153%	106.926%	107.500%	107.974%	109.799%	110.375%	110.857%	111.350%	111.878%	112.462%	113.006%	113.387%	113.719%	114.005%
4/1/2009	102.223%	103.390%	104.477%	105.277%	106.057%	106.830%	107.404%	107.878%	109.723%	110.305%	110.792%	111.289%	111.820%	112.408%	112.955%	113.338%	113.673%	113.962%
5/1/2009	102.119%	103.292%	104.379%	105.179%	105.959%	106.732%	107.306%	107.780%	109.646%	110.233%	110.726%	111.228%	111.762%	112.352%	112.902%	113.289%	113.627%	113.918%
6/1/2009	102.015%	103.194%	104.281%	105.081%	105.861%	106.634%	107.208%	107.682%	109.560%	110.163%	110.661%	111.167%	111.705%	112.299%	112.851%	113.241%	113.582%	113.876%
7/1/2009	101.909%	103.094%	104.181%	104.981%	105.761%	106.534%	107.108%	107.582%	109.470%	110.090%	110.593%	111.103%	111.645%	112.241%	112.797%	113.190%	113.534%	113.831%
8/3/2009	101.792%	103.000%	104.087%	104.887%	105.667%	106.440%	107.014%	107.488%	109.396%	110.008%	110.517%	111.032%	111.578%	112.177%	112.735%	113.132%	113.479%	113.779%
9/1/2009	101.691%	102.888%	103.975%	104.775%	105.555%	106.328%	106.902%	107.376%	109.304%	109.938%	110.452%	110.971%	111.520%	112.122%	112.683%	113.083%	113.433%	113.736%
10/1/2009	101.584%	102.787%	103.874%	104.674%	105.454%	106.227%	106.801%	107.275%	109.224%	109.864%	110.383%	110.907%	111.460%	112.065%	112.628%	113.031%	113.384%	113.690%

Maturity	12/15/2007	12/15/2010	12/15/2011	12/15/2012	12/15/2013	12/15/2014	12/15/2015	12/15/2016	12/15/2017	12/15/2018	12/15/2019	12/15/2020	12/15/2021	12/15/2022	12/15/2023	12/15/2024	12/15/2025	12/15/2026
Par \$10,000,000	5.000%	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Rate 5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%
11/2/2009	101.474%	102.684%	103.703%	104.648%	105.530%	106.268%	106.904%	109.168%	109.789%	110.314%	110.842%	110.842%	111.398%	112.006%	112.573%	112.979%	113.335%	113.644%
12/1/2009	101.372%	102.588%	103.615%	104.566%	105.454%	106.197%	106.839%	109.093%	109.719%	110.250%	110.782%	110.782%	111.342%	111.953%	112.523%	112.932%	113.291%	113.603%
1/4/2010	101.252%	102.475%	103.511%	104.469%	105.363%	106.113%	106.761%	109.004%	109.637%	110.173%	110.710%	110.710%	111.275%	111.889%	112.461%	112.874%	113.237%	113.551%
2/1/2010	101.152%	102.381%	103.424%	104.388%	105.287%	106.042%	106.695%	108.929%	109.567%	110.108%	110.649%	110.649%	111.217%	111.833%	112.409%	112.824%	113.190%	113.507%
3/1/2010	101.042%	102.277%	103.328%	104.299%	105.203%	105.964%	106.622%	108.846%	109.490%	110.036%	110.582%	110.582%	111.154%	111.773%	112.351%	112.770%	113.139%	113.459%
4/1/2010	100.933%	102.174%	103.234%	104.211%	105.120%	105.887%	106.551%	108.765%	109.414%	109.966%	110.517%	110.517%	111.092%	111.715%	112.295%	112.718%	113.089%	113.413%
5/3/2010	100.817%	102.065%	103.134%	104.118%	105.033%	105.806%	106.476%	108.680%	109.335%	109.893%	110.448%	110.448%	111.027%	111.653%	112.237%	112.663%	113.038%	113.365%
6/1/2010	100.717%	101.970%	103.047%	104.037%	104.958%	105.736%	106.412%	108.606%	109.267%	109.830%	110.390%	110.390%	110.970%	111.601%	112.188%	112.616%	112.994%	113.324%
7/1/2010	100.605%	101.866%	102.951%	103.948%	104.874%	105.658%	106.339%	108.524%	109.190%	109.759%	110.323%	110.323%	110.909%	111.541%	112.131%	112.563%	112.944%	113.276%
8/2/2010	100.487%	101.756%	102.850%	103.853%	104.784%	105.575%	106.262%	108.436%	109.108%	109.682%	110.252%	110.252%	110.842%	111.477%	112.069%	112.505%	112.889%	113.225%
9/1/2010	100.377%	101.653%	102.756%	103.765%	104.702%	105.498%	106.191%	108.355%	109.033%	109.612%	110.186%	110.186%	110.780%	111.418%	112.013%	112.452%	112.839%	113.177%
10/1/2010	100.266%	101.549%	102.659%	103.675%	104.617%	105.420%	106.118%	108.272%	108.956%	109.541%	110.119%	110.119%	110.717%	111.358%	111.956%	112.398%	112.788%	113.130%
11/1/2010	100.157%	101.445%	102.564%	103.586%	104.534%	105.343%	106.047%	108.191%	108.880%	109.470%	110.053%	110.053%	110.655%	111.299%	111.900%	112.345%	112.739%	113.084%
12/1/2010	100.049%	101.342%	102.469%	103.498%	104.452%	105.266%	105.976%	108.110%	108.805%	109.401%	109.987%	109.987%	110.594%	111.241%	111.846%	112.294%	112.691%	113.039%
1/3/2011	101.228%	102.365%	103.401%	104.361%	105.261%	106.118%	106.933%	109.069%	109.722%	109.324%	109.917%	109.917%	110.526%	111.176%	111.844%	112.246%	112.636%	112.987%
2/1/2011	101.127%	102.271%	103.314%	104.278%	105.178%	106.036%	106.854%	109.000%	109.647%	109.254%	109.851%	109.851%	110.464%	111.117%	111.727%	112.182%	112.586%	112.940%
3/1/2011	101.019%	102.172%	103.221%	104.191%	105.024%	105.751%	106.532%	108.677%	109.326%	108.935%	109.539%	109.539%	110.153%	110.811%	111.472%	111.937%	112.353%	112.724%
4/1/2011	100.912%	102.074%	103.130%	104.105%	104.944%	105.677%	106.462%	108.613%	109.269%	108.888%	109.497%	109.497%	110.114%	110.783%	111.458%	111.932%	112.358%	112.741%
5/2/2011	100.803%	101.973%	103.036%	104.018%	104.863%	105.602%	106.396%	108.552%	109.213%	108.840%	109.454%	109.454%	110.076%	110.750%	111.438%	111.922%	112.358%	112.748%
6/1/2011	100.701%	101.880%	102.949%	103.936%	104.788%	105.532%	106.335%	108.494%	109.154%	108.782%	109.399%	109.399%	110.026%	110.706%	111.396%	111.882%	112.320%	112.714%
7/1/2011	100.592%	101.781%	102.857%	103.849%	104.707%	105.457%	106.266%	108.433%	109.094%	108.722%	109.341%	109.341%	109.970%	110.652%	111.342%	111.828%	112.275%	112.672%
8/1/2011	100.479%	101.679%	102.761%	103.760%	104.623%	105.379%	106.193%	108.364%	109.026%	108.654%	109.273%	109.273%	109.904%	110.590%	111.282%	111.769%	112.225%	112.625%
9/1/2011	100.369%	101.578%	102.667%	103.671%	104.541%	105.303%	106.072%	108.248%	108.912%	108.540%	109.159%	109.159%	109.792%	110.484%	111.182%	111.670%	112.127%	112.530%
10/3/2011	100.253%	101.471%	102.568%	103.578%	104.454%	105.222%	106.000%	108.179%	108.844%	108.472%	109.091%	109.091%	109.724%	110.418%	111.122%	111.610%	112.078%	112.488%
11/1/2011	100.153%	101.378%	102.481%	103.497%	104.379%	105.153%	105.933%	108.114%	108.779%	108.407%	109.026%	109.026%	109.660%	110.360%	111.069%	111.584%	112.052%	112.464%
12/1/2011	100.048%	101.280%	102.390%	103.411%	104.300%	105.079%	105.868%	108.052%	108.718%	108.346%	108.965%	108.965%	109.604%	110.311%	111.030%	111.554%	112.022%	112.435%
1/3/2012	101.172%	102.289%	103.316%	104.289%	105.211%	106.088%	106.924%	109.111%	109.768%	109.385%	109.999%	109.999%	110.642%	111.354%	112.072%	112.596%	113.125%	113.659%
2/1/2012	101.075%	102.199%	103.231%	104.219%	105.152%	106.030%	106.866%	109.049%	109.706%	109.324%	109.939%	109.939%	110.586%	111.299%	112.017%	112.541%	113.070%	113.604%
3/1/2012	100.972%	102.102%	103.141%	104.130%	105.063%	105.941%	106.774%	108.957%	109.614%	109.232%	109.847%	109.847%	110.498%	111.213%	111.930%	112.454%	112.983%	113.516%
4/2/2012	100.867%	102.004%	103.049%	104.042%	105.083%	105.962%	106.795%	108.978%	109.635%	109.254%	109.869%	109.869%	110.524%	111.241%	111.958%	112.482%	113.011%	113.544%
5/1/2012	100.769%	101.913%	102.963%	103.956%	104.900%	105.779%	106.612%	108.795%	109.452%	109.071%	109.696%	109.696%	110.354%	111.073%	111.791%	112.315%	112.844%	113.382%
6/1/2012	100.669%	101.820%	102.876%	103.870%	104.814%	105.693%	106.526%	108.709%	109.366%	108.985%	109.610%	109.610%	110.271%	110.992%	111.710%	112.234%	112.763%	113.302%
7/2/2012	100.561%	101.721%	102.783%	103.777%	104.721%	105.600%	106.433%	108.616%	109.273%	108.892%	109.517%	109.517%	110.179%	110.902%	111.620%	112.144%	112.673%	113.212%
8/1/2012	100.457%	101.625%	102.693%	103.687%	104.631%	105.510%	106.343%	108.526%	109.183%	108.802%	109.427%	109.427%	110.091%	110.816%	111.540%	112.064%	112.593%	113.132%
9/4/2012	100.341%	101.517%	102.592%	103.586%	104.530%	105.409%	106.242%	108.425%	109.082%	108.701%	109.346%	109.346%	110.011%	110.737%	111.462%	111.986%	112.515%	113.054%
10/1/2012	100.247%	101.430%	102.507%	103.501%	104.445%	105.324%	106.157%	108.340%	109.000%	108.619%	109.264%	109.264%	109.929%	110.655%	111.380%	111.904%	112.433%	112.972%
11/1/2012	100.145%	101.334%	102.420%	103.414%	104.358%	105.237%	106.070%	108.253%	108.914%	108.533%	109.178%	109.178%	109.843%	110.569%	111.294%	111.818%	112.347%	112.886%
12/3/2012	100.039%	101.233%	102.325%	103.319%	104.263%	105.142%	105.975%	108.159%	108.820%	108.439%	109.084%	109.084%	109.749%	110.475%	111.200%	111.724%	112.253%	112.792%

Maturity	12/15/2007	12/15/2010	12/15/2011	12/15/2012	12/15/2013	12/15/2014	12/15/2015	12/15/2016	12/15/2017	12/15/2018	12/15/2019	12/15/2020	12/15/2021	12/15/2022	12/15/2023	12/15/2024	12/15/2025	12/15/2026	
Par	\$10,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	
Rate	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	
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Maturity	12/15/2007	12/15/2010	12/15/2011	12/15/2012	12/15/2013	12/15/2014	12/15/2015	12/15/2016	12/15/2017	12/15/2018	12/15/2019	12/15/2020	12/15/2021	12/15/2022	12/15/2023	12/15/2024	12/15/2025	12/15/2026	
Par	\$10,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	
Rate	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	
3/1/2016	100.856%	102.270%	103.368%	104.348%	105.258%	106.131%	106.993%	107.802%	108.485%	109.105%	109.664%	109.664%	109.664%	109.664%	109.664%	109.664%	109.664%	109.664%	109.664%
4/1/2016	100.766%	102.167%	103.272%	104.259%	105.175%	106.052%	106.918%	107.731%	108.418%	109.042%	109.605%	109.605%	109.605%	109.605%	109.605%	109.605%	109.605%	109.605%	109.605%
5/2/2016	100.674%	102.062%	103.175%	104.168%	105.090%	105.972%	106.842%	107.659%	108.350%	108.978%	109.545%	109.545%	109.545%	109.545%	109.545%	109.545%	109.545%	109.545%	109.545%
6/1/2016	100.589%	101.965%	103.085%	104.084%	105.012%	105.898%	106.772%	107.592%	108.287%	108.919%	109.490%	109.490%	109.490%	109.490%	109.490%	109.490%	109.490%	109.490%	109.490%
7/1/2016	100.497%	101.861%	102.988%	103.994%	104.928%	105.819%	106.696%	107.520%	108.219%	108.855%	109.429%	109.429%	109.429%	109.429%	109.429%	109.429%	109.429%	109.429%	109.429%
8/1/2016	100.401%	101.755%	102.888%	103.902%	104.841%	105.736%	106.617%	107.445%	108.148%	108.788%	109.366%	109.366%	109.366%	109.366%	109.366%	109.366%	109.366%	109.366%	109.366%
9/1/2016	100.308%	101.649%	102.790%	103.810%	104.755%	105.655%	106.540%	107.371%	108.079%	108.722%	109.304%	109.304%	109.304%	109.304%	109.304%	109.304%	109.304%	109.304%	109.304%
10/3/2016	100.210%	101.538%	102.686%	103.713%	104.664%	105.569%	106.458%	107.294%	108.006%	108.653%	109.239%	109.239%	109.239%	109.239%	109.239%	109.239%	109.239%	109.239%	109.239%
11/1/2016	100.127%	101.441%	102.596%	103.630%	104.586%	105.496%	106.388%	107.227%	107.943%	108.594%	109.184%	109.184%	109.184%	109.184%	109.184%	109.184%	109.184%	109.184%	109.184%
12/1/2016	100.040%	101.339%	102.501%	103.541%	104.503%	105.418%	106.314%	107.157%	107.877%	108.532%	109.126%	109.126%	109.126%	109.126%	109.126%	109.126%	109.126%	109.126%	109.126%
1/3/2017		101.226%	102.395%	103.443%	104.411%	105.331%	106.232%	107.078%	107.803%	108.462%	109.060%	109.060%	109.060%	109.060%	109.060%	109.060%	109.060%	109.060%	109.060%
2/1/2017		101.124%	102.301%	103.355%	104.328%	105.252%	106.157%	107.007%	107.735%	108.398%	109.000%	109.000%	109.000%	109.000%	109.000%	109.000%	109.000%	109.000%	109.000%
3/1/2017		101.017%	102.200%	103.261%	104.240%	105.169%	106.078%	106.931%	107.664%	108.331%	108.936%	108.936%	108.936%	108.936%	108.936%	108.936%	108.936%	108.936%	108.936%
4/3/2017		100.903%	102.094%	103.162%	104.148%	105.082%	105.995%	106.852%	107.589%	108.261%	108.870%	108.870%	108.870%	108.870%	108.870%	108.870%	108.870%	108.870%	108.870%
5/1/2017		100.805%	102.002%	103.077%	104.068%	105.007%	105.923%	106.784%	107.525%	108.201%	108.814%	108.814%	108.814%	108.814%	108.814%	108.814%	108.814%	108.814%	108.814%
6/1/2017		100.700%	101.905%	102.987%	103.984%	104.928%	105.848%	106.713%	107.458%	108.138%	108.754%	108.754%	108.754%	108.754%	108.754%	108.754%	108.754%	108.754%	108.754%
7/3/2017		100.583%	101.798%	102.887%	103.890%	104.839%	105.763%	106.632%	107.382%	108.066%	108.687%	108.687%	108.687%	108.687%	108.687%	108.687%	108.687%	108.687%	108.687%
8/1/2017		100.478%	101.701%	102.797%	103.806%	104.759%	105.687%	106.559%	107.313%	108.001%	108.626%	108.626%	108.626%	108.626%	108.626%	108.626%	108.626%	108.626%	108.626%
9/1/2017		100.367%	101.599%	102.701%	103.716%	104.674%	105.606%	106.483%	107.241%	107.933%	108.561%	108.561%	108.561%	108.561%	108.561%	108.561%	108.561%	108.561%	108.561%
10/2/2017		100.255%	101.494%	102.604%	103.625%	104.588%	105.524%	106.404%	107.167%	107.863%	108.496%	108.496%	108.496%	108.496%	108.496%	108.496%	108.496%	108.496%	108.496%
11/1/2017		100.152%	101.397%	102.514%	103.540%	104.509%	105.448%	106.333%	107.099%	107.800%	108.456%	108.456%	108.456%	108.456%	108.456%	108.456%	108.456%	108.456%	108.456%
12/1/2017		100.047%	101.298%	102.422%	103.454%	104.427%	105.371%	106.259%	107.031%	107.735%	108.375%	108.375%	108.375%	108.375%	108.375%	108.375%	108.375%	108.375%	108.375%
1/2/2018		101.192%	102.323%	103.362%	104.340%	105.288%	106.180%	107.048%	107.806%	108.464%	109.039%	109.039%	109.039%	109.039%	109.039%	109.039%	109.039%	109.039%	109.039%
2/1/2018		101.090%	102.228%	103.272%	104.255%	105.207%	106.103%	106.956%	107.706%	108.353%	108.924%	108.924%	108.924%	108.924%	108.924%	108.924%	108.924%	108.924%	108.924%
3/1/2018		100.986%	102.131%	103.181%	104.169%	105.125%	106.025%	106.899%	107.626%	108.201%	108.728%	108.728%	108.728%	108.728%	108.728%	108.728%	108.728%	108.728%	108.728%
4/2/2018		100.879%	102.031%	103.088%	104.081%	105.041%	105.945%	106.734%	107.455%	108.111%	108.711%	108.711%	108.711%	108.711%	108.711%	108.711%	108.711%	108.711%	108.711%
5/1/2018		100.780%	101.939%	103.002%	104.000%	104.964%	105.871%	106.665%	107.390%	108.050%	108.600%	108.600%	108.600%	108.600%	108.600%	108.600%	108.600%	108.600%	108.600%
6/1/2018		100.679%	101.845%	102.914%	103.917%	104.885%	105.797%	106.594%	107.324%	107.988%	108.540%	108.540%	108.540%	108.540%	108.540%	108.540%	108.540%	108.540%	108.540%
7/2/2018		100.569%	101.745%	102.820%	103.828%	104.800%	105.716%	106.518%	107.252%	107.920%	108.440%	108.440%	108.440%	108.440%	108.440%	108.440%	108.440%	108.440%	108.440%
8/1/2018		100.463%	101.648%	102.728%	103.742%	104.718%	105.637%	106.444%	107.182%	107.854%	108.380%	108.380%	108.380%	108.380%	108.380%	108.380%	108.380%	108.380%	108.380%
9/4/2018		100.345%	101.538%	102.626%	103.645%	104.626%	105.549%	106.361%	107.104%	107.780%	108.300%	108.300%	108.300%	108.300%	108.300%	108.300%	108.300%	108.300%	108.300%
10/1/2018		100.250%	101.450%	102.543%	103.567%	104.551%	105.479%	106.294%	107.041%	107.721%	108.250%	108.250%	108.250%	108.250%	108.250%	108.250%	108.250%	108.250%	108.250%
11/1/2018		100.147%	101.353%	102.452%	103.481%	104.470%	105.401%	106.221%	106.972%	107.657%	108.180%	108.180%	108.180%	108.180%	108.180%	108.180%	108.180%	108.180%	108.180%
12/3/2018		100.039%	101.251%	102.357%	103.391%	104.384%	105.320%	106.145%	106.900%	107.589%	108.100%	108.100%	108.100%	108.100%	108.100%	108.100%	108.100%	108.100%	108.100%
1/2/2019		101.155%	102.266%	103.305%	104.303%	105.242%	106.145%	106.971%	107.721%	108.381%	108.940%	108.940%	108.940%	108.940%	108.940%	108.940%	108.940%	108.940%	108.940%
2/1/2019		101.056%	102.174%	103.218%	104.219%	105.162%	106.065%	106.920%	107.672%	108.250%	108.760%	108.760%	108.760%	108.760%	108.760%	108.760%	108.760%	108.760%	108.760%
3/1/2019		100.954%	102.079%	103.128%	104.133%	105.081%	105.987%	106.843%	107.599%	108.180%	108.690%	108.690%	108.690%	108.690%	108.690%	108.690%	108.690%	108.690%	108.690%
4/1/2019		100.854%	101.985%	103.039%	104.049%	105.000%	105.904%	106.760%	107.516%	108.100%	108.610%	108.610%	108.610%	108.610%	108.610%	108.610%	108.610%	108.610%	108.610%

Maturity	12/15/2007	12/15/2010	12/15/2011	12/15/2012	12/15/2013	12/15/2014	12/15/2015	12/15/2016	12/15/2017	12/15/2018	12/15/2019	12/15/2020	12/15/2021	12/15/2022	12/15/2023	12/15/2024	12/15/2025	12/15/2026	
Par	\$10,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Rate	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%
5/1/2019											100.755%	101.892%	102.952%	103.966%	104.921%	105.769%	106.545%	107.255%	
6/3/2019											100.651%	101.794%	102.860%	103.878%	104.838%	105.690%	106.472%	107.186%	
7/1/2019											100.555%	101.705%	102.776%	103.798%	104.762%	105.618%	106.404%	107.122%	
8/1/2019											100.448%	101.607%	102.683%	103.710%	104.677%	105.539%	106.329%	107.051%	
9/3/2019											100.337%	101.504%	102.585%	103.617%	104.589%	105.455%	106.250%	106.976%	
10/1/2019											100.242%	101.415%	102.501%	103.536%	104.512%	105.383%	106.182%	106.912%	
11/1/2019											100.142%	101.320%	102.412%	103.451%	104.431%	105.307%	106.110%	106.845%	
12/2/2019											100.041%	101.224%	102.321%	103.365%	104.349%	105.229%	106.037%	106.776%	
1/2/2020											101.126%	101.126%	102.229%	103.277%	104.266%	105.151%	105.963%	106.706%	
2/3/2020											101.023%	101.023%	102.131%	103.184%	104.177%	105.067%	105.884%	106.632%	
3/2/2020											100.928%	102.041%	103.098%	104.095%	104.989%	105.811%	106.563%	107.276%	
4/1/2020											100.833%	101.952%	103.013%	104.014%	104.913%	105.739%	106.495%	107.218%	
5/1/2020											100.737%	101.861%	102.927%	103.932%	104.835%	105.666%	106.426%	107.149%	
6/1/2020											100.642%	101.771%	102.841%	103.850%	104.759%	105.594%	106.359%	107.082%	
7/1/2020											100.541%	101.677%	102.752%	103.766%	104.679%	105.518%	106.287%	107.010%	
8/3/2020											100.430%	101.574%	102.654%	103.672%	104.590%	105.435%	106.209%	106.932%	
9/1/2020											100.335%	101.485%	102.569%	103.591%	104.514%	105.363%	106.141%	106.864%	
10/1/2020											100.236%	101.391%	102.480%	103.506%	104.434%	105.287%	106.069%	106.792%	
11/2/2020											100.135%	101.295%	102.388%	103.419%	104.352%	105.210%	105.997%	106.720%	
12/1/2020											100.043%	101.206%	102.304%	103.339%	104.276%	105.139%	105.930%	106.653%	
1/4/2021											101.101%	101.101%	102.204%	103.243%	104.186%	105.054%	105.850%	106.573%	
2/1/2021											101.013%	101.013%	102.119%	103.163%	104.110%	104.982%	105.782%	106.505%	
3/1/2021											100.916%	100.916%	102.027%	103.075%	104.027%	104.903%	105.708%	106.431%	
4/1/2021											100.820%	100.820%	101.935%	102.987%	103.944%	104.826%	105.635%	106.358%	
5/3/2021											100.718%	100.718%	101.839%	102.896%	103.858%	104.744%	105.558%	106.281%	
6/1/2021											100.631%	100.631%	101.756%	102.817%	103.784%	104.674%	105.492%	106.215%	
7/1/2021											100.532%	100.532%	101.663%	102.728%	103.700%	104.596%	105.418%	106.141%	
8/2/2021											100.426%	100.426%	101.564%	102.634%	103.611%	104.512%	105.339%	106.062%	
9/1/2021											100.329%	100.329%	101.473%	102.547%	103.529%	104.434%	105.266%	105.989%	
10/1/2021											100.231%	100.231%	101.379%	102.458%	103.445%	104.355%	105.191%	105.914%	
11/1/2021											100.136%	100.136%	101.287%	102.371%	103.362%	104.277%	105.118%	105.841%	
12/1/2021											100.042%	100.042%	101.196%	102.284%	103.281%	104.200%	105.046%	105.769%	
1/3/2022											101.095%	101.095%	102.188%	103.190%	104.115%	104.965%	105.738%	106.461%	
2/1/2022											101.004%	101.004%	102.101%	103.108%	104.037%	104.892%	105.665%	106.388%	
3/1/2022											100.908%	100.908%	102.009%	103.021%	103.955%	104.815%	105.588%	106.311%	
4/1/2022											100.813%	100.813%	101.919%	102.936%	103.875%	104.739%	105.512%	106.235%	
5/2/2022											100.715%	100.715%	101.826%	102.849%	103.792%	104.661%	105.435%	106.158%	

Maturity	12/15/2007	12/15/2010	12/15/2011	12/15/2012	12/15/2013	12/15/2014	12/15/2015	12/15/2016	12/15/2017	12/15/2018	12/15/2019	12/15/2020	12/15/2021	12/15/2022	12/15/2023	12/15/2024	12/15/2025	12/15/2026	
Par	\$10,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	
Rate	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	
6/1/2022								100.626%	101.741%	102.768%	103.717%	104.590%							
7/1/2022								100.528%	101.649%	102.681%	103.635%	104.513%							
8/1/2022								100.426%	101.554%	102.592%	103.550%	104.433%							
9/1/2022								100.326%	101.460%	102.503%	103.467%	104.354%							
10/3/2022								100.223%	101.362%	102.410%	103.379%	104.271%							
11/1/2022								100.134%	101.276%	102.330%	103.303%	104.200%							
12/1/2022								100.042%	101.186%	102.245%	103.223%	104.125%							
1/3/2023									101.086%	102.150%	103.134%	104.041%							
2/1/2023									100.996%	102.065%	103.053%	103.965%							
3/1/2023									100.900%	101.975%	102.968%	103.884%							
4/3/2023									100.799%	101.880%	102.879%	103.800%							
5/1/2023									100.712%	101.798%	102.801%	103.727%							
6/1/2023									100.620%	101.711%	102.720%	103.650%							
7/3/2023									100.516%	101.614%	102.628%	103.564%							
8/1/2023									100.422%	101.527%	102.546%	103.487%							
9/1/2023									100.324%	101.435%	102.459%	103.405%							
10/2/2023									100.224%	101.341%	102.371%	103.321%							
11/1/2023									100.133%	101.254%	102.289%	103.244%							
12/1/2023									100.041%	101.166%	102.206%	103.166%							
1/2/2024										101.070%	102.116%	103.081%							
2/1/2024										100.979%	102.029%	102.999%							
3/1/2024										100.885%	101.940%	102.915%							
4/1/2024										100.792%	101.852%	102.832%							
5/1/2024										100.700%	101.766%	102.751%							
6/3/2024										100.604%	101.675%	102.666%							
7/1/2024										100.514%	101.592%	102.587%							
8/1/2024										100.415%	101.500%	102.501%							
9/3/2024										100.311%	101.404%	102.410%							
10/1/2024										100.223%	101.321%	102.331%							
11/1/2024										100.131%	101.232%	102.248%							
12/2/2024										100.038%	101.143%	102.164%							
1/2/2025											101.052%	102.078%							
2/3/2025											100.955%	101.987%							
3/3/2025											100.863%	101.900%							
4/1/2025											100.778%	101.819%							
5/1/2025											100.688%	101.735%							

Maturity	12/15/2007	12/15/2010	12/15/2011	12/15/2012	12/15/2013	12/15/2014	12/15/2015	12/15/2016	12/15/2017	12/15/2018	12/15/2019	12/15/2020	12/15/2021	12/15/2022	12/15/2023	12/15/2024	12/15/2025	12/15/2026
Par	\$10,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Rate	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.000%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%	5.250%
	6/2/2025																	
	7/1/2025																	
	8/1/2025																	
	9/2/2025																	
	10/1/2025																	
	11/3/2025																	
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