G 2100.3 B711r 2008 c.1

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

NEW ISSUES — BOOK-ENTRY ONLY ***RATINGS: SEE "RATINGS" HEREIN***

In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions, and assuming compliance with certain tax covenants as described herein, (i) interest on the 2008A Bonds is excludable from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) such interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. ***Interest on the 2008B Bonds will be includable in gross income for federal income tax purposes.*** *In the opinion of Bond Counsel to the Authority, under the Act, the 2008 Bonds and the interest thereon are exempt from taxation, except inheritance taxes, by the State of Oklahoma (the "State") or by any municipal corporation, county or other political subdivision or taxing district of said State. See "Tax Matters" herein.*

$568,285,000*
Grand River Dam Authority

$549,220,000*
Revenue Bonds, Series 2008A

$19,065,000*
Revenue Bonds, Series 2008B
(Federally Taxable)

DATED: Date of Delivery **DUE: June 1, as shown on inside cover**

The above-described bonds (collectively, the "*2008 Bonds*") of the Grand River Dam Authority (the "*Authority*") are being issued in two series pursuant to the Act, as defined herein, and under and pursuant to the General Bond Resolution No. 4800, adopted March 6, 1987, as supplemented by the Seventh Supplemental Resolution, Resolution No. 5104, adopted August 8, 2008 (the "*Resolution*"). The 2008 Bonds will be issued in fully-registered form in the denominations of $5,000 or any integral multiple thereof. The 2008 Bonds when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("*DTC*"). DTC will act as securities depository for the 2008 Bonds. Purchases of beneficial ownership interests in the 2008 Bonds will be made in book-entry form only. Beneficial owners of the 2008 Bonds will not receive physical delivery of certificates evidencing their ownership interest in the 2008 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the 2008 Bonds. Interest on the 2008 Bonds is payable each June 1 and December 1, commencing June 1, 2009, as more fully described herein. So long as DTC or its nominee is the registered owner of the 2008 Bonds, payments of the principal of and interest on the 2008 Bonds will be made by Bank of Oklahoma, National Association, Tulsa, Oklahoma, as trustee, registrar and paying agent (the "*Bond Fund Trustee*"), directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See "THE 2008 BONDS" herein. Certain of the 2008 Bonds are subject to redemption prior to maturity, as more fully described herein. Certain capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Resolution.

[The scheduled payment of principal of and interest on the 2008 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2008 Bonds by _____.]

The 2008 Bonds are being issued (i) to fund the planned purchase of a thirty-six percent (36%) interest in the 1,230 MW gas-fired, combined-cycle power generation facility located in Luther, Oklahoma ("*Redbud*"), (ii) to fund certain capital additions, repairs and improvements to the System, (iii) to make deposits into the Bond Service Reserve Account and the Reserve and Contingency Fund, and (iv) to pay certain costs of issuance for the 2008 Bonds.

The 2008 Bonds will constitute special obligations of the Authority, and the principal thereof and premium, if any, and interest thereon will be payable solely from and secured by the Revenues of the Authority derived from the ownership and operation of its electric power and energy system (the "*System*") and other moneys and securities pledged under the Resolution.

Neither the State nor any political subdivision thereof is obligated to pay the principal of, premium, if any, or interest on the Bonds, and the faith and credit of the State or any such political subdivision is not pledged to the payment of the principal of, premium, if any, or interest on the 2008 Bonds. The Resolution does not mortgage or grant a security interest in any physical properties of the System to secure the 2008 Bonds. The Authority has no taxing power.

The 2008 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters in connection with the 2008 Bonds are subject to the approval of Gretchen Zumwalt-Smith, Esq., General Counsel to the Authority and the approving certificate of the Attorney General of Oklahoma. Certain legal matters will be passed upon for the Underwriters by Crowe & Dunlevy, A Professional Corporation, Oklahoma City, Oklahoma, and Phillips McFall McCaffrey McVay & Murrah P.C., Oklahoma City, Oklahoma, co-counsel to the Underwriters. It is expected that the 2008 Bonds in definitive form will be available for delivery to DTC on or about September 24, 2008.

Citi **Capital West Securities, Inc.**

BOSC, Inc.,
A subsidiary of BOK Financial Corp.

Wells Nelson & Associates

Dated: September __, 2008

---

* Preliminary, subject to change.

$568,285,000*
Grand River Dam Authority

$549,220,000* Revenue Bonds, Series 2008A

$358,415,000* Serial Bonds

Maturity Date June 1	Principal Amount	Interest Rate	Priced to Yield	CUSIP[1]
2014	$16,610,000			
2015	17,440,000			
2016	18,310,000			
2017	19,230,000			
2018	20,190,000			
2019	21,200,000			
2020	22,260,000			
2021	23,370,000			
2022	24,540,000			
2023	25,765,000			
2024	27,055,000			
2025	28,410,000			
2026	29,830,000			
2027	31,320,000			
2028	32,885,000			

$190,805,000 ____% Term Bonds due June 1, 2033 Priced to Yield ____% CUSIP _____ ____

$19,065,000* Revenue Bonds, Series 2008B (Federally Taxable)

$19,065,000 ____% Serial Bonds due June 1, 2010 Priced to Yield ____% CUSIP _____ ____

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* Preliminary, subject to change.

[1] CUSIP® is a registered trademark of the American Bankers Association. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only, and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the 2008 Bonds as a result of various subsequent actions including, but not limited to, a defeasance in whole or in part of the 2008 Bonds.

GRAND RIVER DAM AUTHORITY
226 W. Dwain Willis Avenue
Vinita, Oklahoma 74301-0409
(918) 256-5545

BOARD OF DIRECTORS

Terry G. Frost ..... Chairman
W. Brent LaGere ..... Chairman-Elect
S. Michael Cantrell ..... Director
David J. Chernicky ..... Director
James E. Frasier ..... Director
Gerald "Buck" Gay ..... Ex-Officio
Stephen R. Spears ..... Ex-Officio

MANAGEMENT

Kevin A. Easley ..... Chief Executive Officer
Michael S. Kiefner ..... Chief Operating Officer
Carolyn Vowell Dougherty ..... Chief Financial Officer/Treasurer
Gretchen Zumwalt-Smith ..... General Counsel
Donna M. Jones ..... Corporate Secretary
Charles J. Barney ..... Assistant General Manager of Thermal Generation
Anthony Due ..... Assistant General Manager of Operations and Hydro
Robert W. Sullivan, Jr. ..... Assistant General Manager of Risk Management and Regulatory Compliance
Dale Willis ..... Assistant General Manager of Transmission

BOND COUNSEL TO AUTHORITY
Hawkins Delafield & Wood LLP
New York, New York

CONSULTING ENGINEER
C.H. Guernsey & Company
Oklahoma City, Oklahoma

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Tulsa, Oklahoma

This publication, printed by Financial Printing Resource, Inc., is issued by Grand River Dam Authority as authorized by Title 82, Oklahoma Statutes 2001, Section 861 *et seq.* Fifty (50) copies have been prepared and distributed at a cost of $204. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation in connection with the offering of the 2008 Bonds, other than the information and representations contained in this Official Statement and, if given or made, such information or representation must not be relied upon as having been authorized by the Authority or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2008 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information, estimates and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information contained herein since the date hereof. The information set forth herein concerning certain entities with whom the Authority has contracted, and The Depository Trust Company and its book-entry system, has been obtained by the Authority from sources believed by the Authority to be reliable. [Other than with respect to information concerning _____ contained under the caption "BOND INSURANCE" herein and in Appendix G hereto, none of the information in this Official Statement has been supplied or verified by _____ and _____ makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the 2008 Bonds or (iii) the tax status of the interest on the 2008 Bonds.] While the Underwriters have performed a review sufficient to form a reasonable basis for their belief in the accuracy and completeness of the information contained in this Official Statement, the Underwriters do not guarantee the accuracy or completeness of this Official Statement. This Official Statement does not constitute a contract between the Authority or the Underwriters and any one or more of the purchasers or registered owners of the 2008 Bonds.

This Official Statement contains statements that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2008 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 2008 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE 2008 BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. THE COVER PAGE IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES HERETO TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

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OFFICIAL STATEMENT

$568,285,000*
Grand River Dam Authority

$549,220,000*
Revenue Bonds, Series 2008A

$19,065,000*
Revenue Bonds, Series 2008B
(Federally Taxable)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page hereof and the Appendices hereto, is to set forth the information concerning Grand River Dam Authority (the "*Authority*"), a governmental agency, body politic and corporate, of the State of Oklahoma (the "*State*"), and the Authority's Revenue Bonds Series 2008A (the "*2008A Bonds*") and the Authority's Revenue Bonds, Series 2008B (Federally Taxable) (the "*2008B Bonds*," and together with the 2008A Bonds, the "*2008 Bonds*").

The 2008 Bonds are to be issued pursuant to the Grand River Dam Authority Act, Title 82, Oklahoma Statutes 2001, Sections 861 *et seq.*, as amended (the "*Act*"), and the Authority's General Bond Resolution No. 4800 providing for the Issuance of Revenue Bonds (General Bond Resolution), adopted March 6, 1987 (the "General Bond Resolution"), as supplemented by Seventh Supplemental Resolution No. 5104, adopted August 8, 2008 (collectively, with the General Bond Resolution, the "*Resolution*"). The Authority is proposing to amend the General Bond Resolution as described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Proposed Amendment of General Bond Resolution".

The 2008 Bonds will be secured on a parity with the Authority's outstanding (i) Revenue Bonds, Refunding Series 1993, (ii) Revenue Bonds, Refunding Series 1995, (iii) Revenue Bonds, Refunding Series 2002A, and (iv) Revenue Bonds, Series 2002B, and any Additional Bonds (including Refunding Bonds) hereafter issued under the Resolution, all of which are collectively referred to herein as the "*Bonds*". Excluding the 2008 Bonds described herein, as of July 1, 2008, the Authority has $427,306,339.60 aggregate principal amount of Bonds outstanding under the Resolution.

The references herein to the Act, the Resolution, the proposed amended and restated General Bond Resolution, and certain contracts are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Act, the Resolution, the proposed amended and restated General Bond Resolution, and such contracts for full and complete statements of such provisions. Copies of such documents are on file at the offices of the Authority and may be obtained upon request.

Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the General Bond Resolution and as set forth in "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL BOND RESOLUTION — Certain Definitions" in Appendix A hereto.

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* Preliminary, subject to change.

PLAN OF FINANCING

General

The proceeds of the 2008 Bonds will be used (i) to fund the Authority's planned purchase of a thirty-six percent (36%) interest in the 1,230 MW gas-fired, combined-cycle power generation facility located in Luther, Oklahoma ("*Redbud*"), (ii) to fund certain capital additions, repairs and improvements to the System, (iii) to make deposits into the Bond Service Reserve Account and the Reserve and Contingency Fund, and (iv) to pay certain costs of issuance for the 2008 Bonds.

Redbud

To mitigate its exposure to transmission constraints and capacity shortages and to provide more reliability in the future, the Authority plans to join with Oklahoma Gas and Electric ("*OG&E*") and Oklahoma Municipal Power Authority ("*OMPA*") to acquire Redbud at a total purchase price of $852 million. Pursuant to the proposed acquisition, the Authority, which is currently buying generation from Redbud, will acquire a 36% interest in Redbud and its share of the purchase price will be $306.7 million. OG&E will have a 51% interest in Redbud and will operate the facility. OMPA will acquire the remaining 13% interest in Redbud.

Pursuant to a Purchase and Sale Agreement, dated as of January 21, 2008, among OG&E, as purchaser, and Redbud Energy I, LLC, Redbud Energy II, LLC, and Redbud Energy III, LLC, as sellers and as owners of 100% of the partnership interest in Redbud Energy LP, a Delaware limited partnership ("*Redbud Energy*"), OG&E plans to purchase Redbud. Promptly after the purchase, OG&E proposes to dissolve Redbud Energy and sell 49% of the assets acquired to the Authority and OMPA in accordance with the terms of an Asset Purchase Agreement, dated as of January 21, 2008. Under the agreement, the Authority would purchase and assume a thirty-six percent (36%) undivided interest in all of the assets and liabilities of Redbud. The assets to be acquired include (i) the real property used in connection with the operation of the facility, together with any leasehold estates and all appurtenances thereto, (ii) all inventory, equipment, vehicles, tools, furniture, fixtures and other tangible personal property used in the operation of the facility, (iii) all natural gas inventory related to the operation of the facility, and (iv) all contracts, agreements, licenses and permits related to the ownership and operation of the facility. The Authority would assume its pro rata share of the liabilities to be assumed by OG&E, which include (i) all obligations under all contracts, arrangements, commitments, undertakings and licenses assigned to OG&E by Redbud Energy, (ii) the cost of corrective action associated with any violation of environmental laws, (iii) any changes or improvements necessary for Redbud to be in material compliance with all fire, safety and building codes, (iv) all liabilities, claims, fees, penalties and expenses arising out of the ownership, possession and use of the facility, and (v) liabilities arising out of federal labor or employment laws.

The Authority, OG&E and OMPA have entered into a Redbud Generating Facility Ownership and Operating Agreement, dated as of January 21, 2008, providing for the common ownership and operation of Redbud. Under the agreement, OG&E is named as the initial operations manager for the facility, subject to right of the executive committee established under the agreement to replace the operations manager.

The Independent Engineer's Report on GRDA's Acquisition of the Redbud Power Plant, dated August 28, 2008, prepared by C.H. Guernsey & Company, Oklahoma City, Oklahoma, a nationally-recognized engineering and consulting firm ("Guernsey"), is attached hereto as Appendix B.

Capital Additions, Repairs and Improvements

Additional costs to be funded from the proceeds of the 2008 Bonds include, but are not limited to: capital additions, repairs and improvements to the Authority's Coal-Fired Generating Complex ("*CFC*"), transmission and transformation system, hydroelectric generating facilities, and ecosystems.

SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the proceeds of the 2008 Bonds:

Sources:	**2008A Bonds**	**2008B Bonds**	**Total**
Principal Amount of 2008 Bonds	$	$	$
Less: Original Issue Discount			
Plus: Original Issue Premium			
Total Sources:	$	$	$
Uses:			
Deposit to the Construction Fund	$	$	$
Deposit to the Bond Service Reserve Account			
Deposit to the Reserve and Contingency Fund			
Costs of Issuance[1]			
Total Uses:	$	$	$

[1] *Includes the [bond insurance premium,] underwriter's discount, and rating agency, Bond Fund Trustee and legal fees and other expenses.*

THE 2008 BONDS

General

The 2008 Bonds will be dated as of the date of their original issuance and delivery (the "*Dated Date*") and will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The 2008 Bonds will be issued as fully-registered bonds, initially in book-entry only form, in denominations of $5,000 or any integral multiple thereof.

The 2008 Bonds bear interest at the rates set forth on the inside cover page of this Official Statement. Interest on the 2008 Bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2009 (each, an "*Interest Payment Date*"), or if such date is not a business day, on the next succeeding business day with no additional interest, to the registered owners as of the regular record date, which is the 15th day (whether or not a business day) next preceding each Interest Payment Date (the "*Regular Record Date*"). Interest on the 2008 Bonds is computed on the basis of a 360-day year of twelve 30-day months. Interest on the 2008 Bonds accrues from the Dated Date.

The Bank of Oklahoma, National Association, is the Bond Registrar, Paying Agent and Bond Fund Trustee for the 2008 Bonds under the Resolution (the "*Bond Registrar*," "*Paying Agent*," and "*Bond Fund Trustee*," respectively).

Optional Redemption[†]

The 2008A Bonds maturing on and after June 1, _____ are subject to redemption prior to maturity at the option of the Authority on or after June 1, _____ in whole or in part at any time in any order of maturity determined by the Authority, at a redemption price equal to 100% of the principal amount of the 2008A Bonds or portions thereof to be redeemed plus accrued interest, if any, on such principal amount or portion thereof to the redemption date.

The 2008B Bonds are not subject to redemption prior to maturity at the option of the Authority.

Mandatory Sinking Fund Redemption[†]

The 2008A Bonds due June 1, _____ are subject to redemption prior to maturity on June 1 of each of the years and in the respective principal amounts specified below from Sinking Fund Installments required to be accumulated in the Bond Service Account in the Bond Fund. Each such redemption of the 2008A Bonds shall be made at a redemption price equal to 100% of the principal amount thereof together with accrued interest to the redemption date.

The Resolution requires that Sinking Fund Installments be provided on June 1 of each of the years set forth in the following tables sufficient to redeem the respective principal amounts of the 2008A Bonds maturing on June 1, _____ set forth opposite such years:

2008A Bonds Maturing June 1, 2033

Year	Principal Amount
2029	
2030	
2031	
2032	
2033*	

*Stated Maturity

Amounts accumulated in the Bond Service Account with respect to any such Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the 2008A Bonds for which such Sinking Fund Installment was established) may, prior to the 60th day preceding the due date of such Sinking Fund Installment, be applied to the redemption or purchase of such 2008A Bonds and credited against such Sinking Fund Installment. All such redemptions shall be made at the applicable sinking fund Redemption Price, and all such purchases shall be made at prices not exceeding the applicable sinking fund Redemption Price, in each case plus accrued interest.

In addition, if any 2008A Bonds maturing on June 1, _____ are purchased or redeemed from available moneys in the General Fund, such 2008A Bonds so purchased, redeemed or deemed to have been paid may be credited against future Sinking Fund Installments for such 2008A Bonds as specified by the Authority.

Notice of Redemption

At least 30 days before the redemption of 2008A Bonds, the Bond Fund Trustee will mail to the registered owners of such 2008A Bonds notice of the redemption of such 2008A Bonds to their last

[†] Preliminary, subject to change.

addresses, if any, appearing upon the registry books kept by the Bond Registrar. Failure of the registered owner of any 2008A Bond that is to be redeemed to receive any such notice shall not affect the sufficiency or validity of the proceedings for the redemption of such 2008A Bond. The notice will also state that on the redemption date there will become due and payable upon each 2008A Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal thereof in the case of 2008A Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon will cease to accrue and be payable. In addition, any notice of redemption (other than a redemption from mandatory Sinking Fund Installments) may provide that the redemption of the 2008A Bonds to be redeemed is conditioned upon receipt by the Bond Fund Trustee of moneys sufficient to pay the redemption price, plus accrued interest, on such 2008A Bonds, or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event and any conditional notice so given may be rescinded if any such other event occurs. Notice of such rescission, failure to fund the redemption price or satisfaction of such other condition shall be given by the Bond Fund Trustee to affected holders of such 2008A Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event, in the same manner as the conditional notice of redemption was given.

See "Book-Entry System" below. While DTC or its nominee is the registered owner of the 2008A Bonds, notice of redemption or of purchase in lieu of redemption or of any satisfaction of a conditional notice will be given to DTC or its nominee or its successor and neither the Authority nor the Bond Fund Trustee shall be responsible for mailing such notices to Direct DTC Participants, to Indirect DTC Participants or to the Beneficial Owners of the 2008A Bonds. Any failure of DTC or its nominee or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a Beneficial Owner of a 2008A Bond of any redemption, purchase in lieu of redemption (see "Purchase in Lieu of Redemption" below) or rescission or satisfaction of any conditional notice of redemption will not affect the sufficiency or the validity of the redemption, purchase in lieu of redemption or rescission or satisfaction of conditional notice of redemption of such 2008A Bond. The Authority can give no assurance that DTC or its successor, the Direct DTC Participants or the Indirect DTC Participants will distribute such notices to the Beneficial Owners of the 2008A Bonds, or that they will do so on a timely basis.

Purchase In Lieu of Redemption

Any 2008A Bonds subject to optional redemption also are subject to optional call for purchase and resale by the Authority at the same times and at the same prices as are applicable to the optional redemption of such 2008A Bonds and upon giving the same notices that are required in connection with optional redemption, which notices may be conditional and may be rescinded as with calls for redemption.

Selection of Bonds to be Redeemed

If fewer than all of the 2008A Bonds of like maturity shall be called for prior redemption or purchase in lieu of redemption, the particular 2008A Bonds or portions of 2008A Bonds to be redeemed or purchased shall be selected by the Bond Fund Trustee in such manner as the Bond Fund Trustee in its discretion may deem fair and appropriate.

In any such event, for so long as a book-entry only system is in effect with respect to such 2008A Bonds, DTC or its successors and Direct DTC Participants and Indirect DTC Participants will determine the particular ownership interests of the 2008A Bonds of such maturity to be redeemed or purchased. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect Participant, to make such determination, or to make such determination as described in the preceding paragraphs, will not affect the

sufficiency or the validity of the redemption or purchase of any 2008A Bonds. See "Book-Entry System" below.

Book-Entry System

The Depository Trust Company ("*DTC*"), New York, NY, will act as securities depository for the 2008 Bonds. The 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the 2008 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008 Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2008 Bonds, except in the event that use of the book-entry system for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2008 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 2008 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 2008 Bonds; DTC's records

reflect only the identity of the Direct Participants to whose accounts such 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2008 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2008 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 2008 Bonds may wish to ascertain that the nominee holding the 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and principal payments on the 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Authority or Bond Fund Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC (nor its nominee), the Bond Fund Trustee, or the Authority, 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 Authority or the Bond Fund Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2008 Bonds at any time by giving reasonable notice to the Authority or the Bond Fund Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the 2008 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the 2008 Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. The Authority takes no responsibility for the accuracy of this information.

Transfer and Exchange

So long as the book-entry system is in effect, Beneficial Owners may transfer their interests in the 2008 Bonds through the book-entry system. In the event of a discontinuance of the book-entry system, the 2008 Bonds may be transferred or exchanged only upon the registration books of the Bond Fund Trustee, subject to the restrictions described below.

The Authority and the Bond Fund Trustee are not required to transfer or exchange any 2008 Bonds (i) during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date; (ii) during the period from and including the day 15 days prior to any special record date to and including the date of the proposed payment pertaining thereto; (iii) during the period from and including the day 15 days prior to the mailing of notice calling any 2008 Bonds for redemption or for purchase in lieu of redemption, to and including the date of such mailing; or (iv) at any time following the mailing of notice of redemption or of purchase in lieu of redemption of such 2008 Bonds. For every exchange or transfer of 2008 Bonds, the Authority or the Bond Fund Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of the Resolution

The principal of, premium, if any, and interest on the Bonds, including the 2008 Bonds, are payable from and secured by a pledge of and first lien on (i) the proceeds of the sale of Bonds, (ii) the revenues of the System (the "Revenues"), and (iii) all funds and accounts (other than Escrow Funds and the Rebate Fund) established by the Resolution, including the income derived from the investment thereof, if any, subject to provisions of the Resolution requiring, if a default were to occur, the prior payment of the reasonable and proper charges and expenses of the System, including repairs and replacements of facilities of the System, necessary to prevent loss of the Revenues. Pursuant to the Resolution, the Revenues include all revenues, income, rents and receipts derived by the Authority from or attributable to the ownership and operation of its entire System, including all revenues attributable to the System received by the Authority under the contracts between the Authority and its power purchasers or under any other contract or agreement for the sale or interchange of power or other services from the System or any lease or other contractual arrangement with respect to the use of the facilities of the System or the services, output or capacity thereof or from the sale of any property of the System permitted under the Resolution and the proceeds of any insurance covering business interruption loss relating to the System, all as determined in accordance with generally accepted accounting principles. "Revenues" also includes all interest, profits, or other income derived from the investment of any moneys held pursuant to the Resolution and required to be paid into the Revenue Fund. "Revenues" does not include amounts on deposit in the Rebate Fund, investment earnings on Escrow Funds or the proceeds of separate utility system obligations or contract revenue bonds or payments under a Support Facility.

Neither the State nor any political subdivision thereof is obligated to pay the principal of, premium, if any, or interest on the Bonds, and the faith and credit of the State or any such political subdivision is not pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Resolution does not mortgage or grant a security interest in any physical properties of the System to secure the Bonds. The Authority has no taxing power.

All Revenues are required to be deposited promptly by the Authority to the credit of the Revenue Fund and disbursed monthly therefrom to the following funds and accounts in the following order: to the Bond Service Account and the Bond Service Reserve Account in the Bond Fund; to meet Maintenance and Operation Costs; to the Reserve and Contingency Fund; and the balance to the General Fund.

Rate Covenant; Covenant of State

Rates and Charges. The Authority will, at all times while any Bonds shall be Outstanding, establish, fix, prescribe, maintain and collect rates and charges for the sale or use of electric power and energy or other services so as to produce Revenues which together with other available funds shall be sufficient to make when due (i) all payments, transfers and deposits which the Authority is obligated to pay, transfer and deposit under the Resolution and with respect to each Series of Bonds issued hereunder, (ii) the Maintenance and Operation Costs of the System, including all taxes, assessments or other governmental charges lawfully imposed on the Authority, and (iii) all other charges or obligations against the Revenues of the Authority of whatsoever nature and whether now or hereafter imposed by law or by contract.

Section 868 of the Act provides, in part, as follows: "The Board [of Directors of the Authority] shall establish and collect rates and other charges for the sale or use of water, water connections, power, electric energy or other services sold, furnished, or supplied by the [Authority] which fees and charges shall be reasonable and nondiscriminatory and sufficient to produce revenue adequate: (a) To pay all expenses necessary to the operation and maintenance of the properties and facilities of the [Authority]; (b) To pay the interest on and principal of all bonds issued under [the Act] when and as the same shall become due and payable; (c) To pay all sinking fund and/or reserve fund payments agreed to be made in respect of any such bonds, and payable out of such revenues, when and as the same shall become due and payable; and (d) To fulfill the terms of any agreements made with the holders of such bonds and/or with any person in their behalf. Out of the revenues which may be received in excess of those required for the purposes specified in subparagraphs (a), (b), (c) and (d) above, the Board shall establish a reasonable depreciation and emergency fund, and retire (by purchase and cancellation or redemption) bonds issued under [the Act], or apply the same to any corporate purpose. It is the intention of [the Act] that the rates and charges of the [Authority] shall not be in excess of what may be necessary to fulfill the obligations imposed upon it by [the Act]. Nothing herein shall be construed as depriving the State of its power to regulate and control fees and/or charges to be collected for the use of water, water connections, power, electric energy, or other services."

Nothing in the Resolution shall be construed as depriving the State of its power to regulate and control the fees and/or charges to be collected for the use of power, electric energy or other services of the System.

Reserve Funds

The Resolution establishes (i) for the Bond Service Reserve Account, the Bond Service Reserve Requirement in an amount equal to Maximum Aggregate Bond Service and (ii) for the Reserve and Contingency Fund, a requirement in an amount at least equal to 25% of Maximum Aggregate Bond Service or such greater amount established pursuant to a Supplemental Resolution. The Bond Service Reserve Account and the Reserve and Contingency Fund upon issuance of a Series of Bonds may be funded from Revenues over a 60-month period. If funded with an initial deposit of proceeds of Bonds of a Series, the amount in total of such initial deposit in the Bond Service Reserve Account and the Reserve and Contingency Fund may not exceed 10% of the proceeds of such Series of Bonds unless there is delivered an opinion of tax counsel permitting a greater amount. Unless remedied by transfers from the Reserve and Contingency Fund or the General Fund, deficiencies in the Bond Service Reserve Account

shall be funded from Revenues over a 36-month period. Unless remedied by transfers from the General Fund, deficiencies in the Reserve and Contingency Fund shall be funded from Revenues over a 60-month period.

When a Series of Bonds is refunded in whole or in part or is otherwise paid so that all of the Bonds of such Series are no longer Outstanding, moneys may be withdrawn from the Bond Service Reserve Account to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Bonds issued to refund such refunded Bonds, provided that immediately after such withdrawal or transfer there shall be on credit to the Bond Service Reserve Account an amount equal to the Bond Service Reserve Requirement.

Additional Bonds and Refunding Bonds

Pursuant to the Resolution, additional parity Bonds may be issued by the Authority for the purpose of providing funds for the cost of Projects. Except as indicated in the next succeeding paragraph, additional parity Bonds for such purpose ("Additional Bonds") may be issued, in addition to certain other requirements, upon delivery of an accountant's certificate stating that Revenues of the Authority after payment of Maintenance and Operation Costs were at least equal to the Aggregate Bond Service for the preceding year. Except as indicated in the next succeeding paragraph, prior to the delivery of each Series of Additional Bonds there shall also be delivered, among other certificates, a certificate of the Attorney General of Oklahoma approving the Bonds and a Consulting Engineer's Certificate showing that Estimated Net Revenues (i) for each of the five Calendar Years succeeding the latest Estimated Date of Commercial Operation of any uncompleted Project (where a Construction Interest Account is created pursuant to a Supplemental Resolution and is funded from proceeds of Additional Bonds) or (ii) for the then current year and each succeeding year to and including the fifth Calendar Year succeeding the latest Estimated Date of Commercial Operation of any uncompleted Project (where a Construction Interest Account is not created), are not less than 1.00 times the Aggregate Bond Service for each of such Calendar Years with respect to all Series of Bonds to be Outstanding immediately after the authentication and delivery of such Series of Additional Bonds and all future Series of Bonds required for completion of any uncompleted Projects.

Additional Bonds may be issued without the certificates referred to in the immediately preceding paragraph (except a certificate of the Attorney General of Oklahoma approving the Bonds), if they are issued to finance the completion of a Project for which Bonds have been issued. Additional Bonds may be issued without these certificates if they are issued to finance (i) additions, extraordinary repairs, renewals, replacements, expansions, betterments, modifications, capital additions and improvements for any Project (a) which are required by any governmental agency or authority with authority to issue or make and enforce an order or decision requiring the same or (b) which in the opinion of the Consulting Engineer are necessary or desirable to achieve design capability, to improve operating reliability, to reduce unit power costs, prevent a loss of Revenues or for safety, public health or environmental purposes; (ii) the deposit or deposits permitted to be made under the Resolution from the proceeds of Bonds into any fund or account established pursuant to the Resolution; (iii) payment of the costs of preliminary and development work including engineering, legal and financial studies, in connection with the planning and development of power resources and the determination of the feasibility thereof; provided, however, that the aggregate principal amount of such Bonds issued pursuant to this clause (iii) at any time Outstanding shall not exceed 5% of the principal amount of all Bonds then Outstanding; and (iv) refunding any note or other evidence of indebtedness issued in anticipation of the issuance of Bonds, the proceeds of which have been or are to be applied to one or more of the purposes described above.

Pursuant to the Resolution, additional parity Bonds also may be issued for the purpose of refunding one or more Series of Outstanding Bonds or of one or more maturities of a Series or portions thereof without meeting any additional bond test.

The aggregate amount of Bonds that may be issued under the Resolution is not limited. The Act currently authorizes the Authority to issue bonds in an aggregate amount not to exceed $1,410,000,000 outstanding at any time. The Act provides that no bonds may be sold by the Authority at an interest cost, computed to maturity, which exceeds 15 % per year.

Rate Stabilization Account

The Authority's current rate stabilization policy, which is subject to change, provides that moneys and value of Investment Securities on deposit in the General Fund are not required for certain purposes (including there described in "Appendix A — SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL BOND RESOLUTION — Funds and Accounts", subsection 4, except clauses (vi) and (vii) of the second paragraph) as of the last business day of each calendar year, in excess of the greater of (i) $150,000,000, or (ii) an amount equal to six months operating reserves as determined by the Authority, shall be credited to the Rate Stabilization Account in the General Fund, and that additional deposits may be made to the Rate Stabilization Account from time to time as determined by the Board of Directors of the Authority.

Separate Utility System

The Authority may issue indebtedness for a separate water utility system or electric utility system secured by the revenues derived from such system if an independent consulting engineer delivers a report that the plan for development is consistent with sound planning and would be useful to the Authority, the separate system can be economically and efficiently utilized, the costs of services from such system are reasonable in comparison to alternate available resources and the acquisition of such separate utility system will not reduce Revenues below rate covenant requirements.

Contract Revenue Bonds

The Authority may issue contract revenue bonds to finance facilities for another agency or entity secured by payments under lease or other contractual arrangement with respect to such facilities.

[Resolution Provisions Relating to the Bond Insurer]

The Resolution provides that the Bond Insurer will be deemed to be the sole holder of the [Insured] Bonds when the approval, consent or action of the holders of such [Insured] Bonds is required or may be exercised under the Resolution, but subject to the provisions described in "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL BOND RESOLUTION — Amendments and Supplemental Resolutions" in Appendix A hereto which require the consent of each affected holder.]

Statutory Approvals

The Act requires that all bonds of the Authority be approved by the Attorney General of the State and registered by the State Auditor and Inspector. The Act also provides that all bonds so approved and registered and issued in accordance with the proceedings so approved shall be valid and binding obligations of the Authority and shall be incontestable for any cause from and after the time of such registration. The 2008 Bonds will be so approved and registered prior to their issuance.

In addition, the Authority's bonds are required to be approved by the Council of Bond Oversight of the State, pursuant to Title 62, Oklahoma Statutes 2001, Section 695.9. The Council approved the issuance of the 2008 Bonds.

Proposed Amendment to General Bond Resolution

The Authority has proposed an amendment and restatement of the General Bond Resolution as summarized in Appendix C hereto. The proposed amendments, among other things, will simplify the additional bonds tests to focus on historical System operations without project-specific certifications, simplify the flow of funds including to eliminate the Reserve and Contingency Fund, allow the Authority to accommodate future developments in accounting standards, provide for fuel hedges and parity interest rate hedges, provide for covenants considered to be appropriate to the operation of the System, and provide for other matters as set forth in the proposed amended and restated General Bond Resolution set forth in Appendix C. Appendix C should be read in its entirety with respect to the proposed amendments.

This proposed amendment will become effective upon the consent thereto by holders of 60% of the principal amount of Bonds then Outstanding (or by municipal bond insurers thereof which are deemed to be the holders for this purpose) ***, including the 2008 Bonds, and upon certain other conditions***.

The Underwriters of the 2008 Bonds will be requested to consent to the proposed amendment, and it is expected that such consents will be received. After giving effect to the issuance of the 2008 Bonds, approximately __% in principal amount of Outstanding Bonds will have consented to the proposed amendment. If additional Bonds are issued, the Authority intends to request that the underwriters thereof, as the initial holders of such Bonds, or the respective bond insurers, consent to the proposed amendment. In addition, retirement or defeasance of Bonds may reduce the principal amount of Bonds Outstanding for purposes of computing the number of Bondholders consenting to the proposed amendment. The Authority also may solicit additional consents from holders of Bonds (or from insurers thereof).

Any consent to the proposed amendment may be revoked, as to any Bond, by the then current holder thereof through written notice filed with the Authority and the Bond Fund Trustee prior to the filing with the Authority by the Bond Fund Trustee of a written statement to the effect that sufficient consents have been received for the amendment to become effective. Under the General Bond Resolution, the Authority and the Bond Fund Trustee may deem and treat the person in whose name any Bond is registered at the time on the books of registry as the absolute owner of such Bond for all purposes whatsoever (although for insured bonds, the insurers may be deemed to be the holders for purposes of consenting to amendments and other purposes), and neither the Authority nor the Bond Fund Trustee shall be affected by any notice to the contrary.

Any beneficial owner of 2008 Bonds desiring to revoke a consent given with respect to the proposed amendment must make arrangements with the Direct Participant or Indirect Participant of DTC through which such beneficial owner's ownership interest in the 2008 Bonds is recorded (see "THE 2008 BONDS — Book Entry System" in this Official Statement in order for such revocation to be made by the Direct Participant in whose account such ownership interest is recorded. NEITHER THE AUTHORITY NOR THE BOND FUND TRUSTEE WILL HAVE ANY OBLIGATION TO BENEFICIAL OWNERS, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WITH RESPECT TO ANY PROCEDURES OR ARRANGEMENTS AMONG THEM OR WITH DTC RELATING TO THE REVOCATION OF ANY SUCH CONSENT, THE ADHERENCE TO ANY DTC PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

[BOND INSURANCE]

[Concurrently with the issuance of the 2008 Bonds, _____ ("_____") will issue its Municipal Bond Insurance Policy for the 2008 Bonds (the "*Policy*"). The Policy guarantees the scheduled payment of principal of and interest on the 2008 Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under _____ insurance law.]

[Description of Bond Insurer]

[To Be Provided]

[Bond Insurer Rights and Obligations]

[In the event that the Authority fails to provide funds to make payment of the principal of and interest with respect to the 2008 Bonds when the same shall become due, any owner of such 2008 Bonds shall have a claim on the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guarantied under the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration. The Policy does not insure the payment of any redemption premium payable upon the prepayment of the 2008 Bonds.

Purchasers of the 2008 Bonds should also note that, while the Policy will insure payment of the principal amount (but not any premium) paid to any owner of the 2008 Bonds in connection with the mandatory or optional prepayment of any 2008 Bond which is recovered from such owner as a voidable preference under applicable bankruptcy law, such amounts will be repaid by the Bond Insurer to the Bondholder only at the times and in the amounts as would have been due absent such prepayment unless the Bond Insurer chooses to pay such amount at an earlier date or dates.

The Resolution provides that the Bond Insurer will be deemed to be the sole holder of the [Insured] Bonds when the approval, consent or action of the holders of such [Insured] Bonds is required or may be exercised under the Resolution, but subject to the provisions described in "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL BOND RESOLUTION — Amendments and Supplemental Resolutions" in Appendix A hereto which require the consent of each affected holder.

In the event that the Bond Insurer is required to pay principal of or interest with respect to the 2008 Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the 2008 Bonds.

The long-term ratings on the 2008 Bonds are dependent, in part, on the claims-paying ability or financial strength ratings, as applicable, of the Bond Insurer. The Bond Insurer's current claims-paying ability or financial strength ratings are predicated upon a number of factors which could change over time and could result in downgrading of the ratings on the 2008 Bonds insured by the Bond Insurer. Such a downgrade could adversely affect the market price for, and marketability of, the 2008 Bonds. The Bond Insurer is not contractually bound to maintain its present claims-paying ability or financial strength ratings in the future. See "RATINGS".]

[Creditworthiness of the Bond Insurer]

[The Bond Insurer's obligations under the Policy is a general obligation of the Bond Insurer. Default by the Bond Insurer may result in insufficient funds being available to pay the principal of and interest on the 2008 Bonds. In such event, the remedies available to the Bond Fund Trustee may be limited by, among other things, certain risks related to bankruptcy proceedings, [and may also have been altered prior to a default by the Bond Insurer. The Policy does not insure the payment of redemption premiums.]

[Recent Developments Concerning Municipal Bond Insurers]

[The payment of the principal of and interest on the 2008 Bonds when due is insured by the Policy issued by the Bond Insurer. Recent developments regarding the sufficiency of reserves of bond insurers in light of their exposure to the sub-prime mortgage crisis, which have been the subject of substantial discussion in the financial press, have had a serious adverse effect on the financial condition of a number of bond insurers, weakening their credit status as reflected in their credit ratings. Therefore, when making an investment decision on the 2008 Bonds a prospective Bondholder should consider carefully the ability of the Authority to pay principal and interest on the 2008 Bonds and not rely solely on the Bond Insurer's ability to pay claims under the Policy.

No review of the business or affairs of the Bond Insurer has been conducted in connection with the issuance and delivery of the 2008 Bonds. No assurance can be given by the Authority as to the Bond Insurer's ability to pay claims under the Policy. See "BOND INSURANCE" herein and Appendix G hereto for further information concerning the Bond Insurer and the Policy, including instructions for obtaining certain financial information concerning the Bond Insurer.]

[Remainder of page intentionally left blank.]

ESTIMATED DEBT SERVICE REQUIREMENTS

The annual debt service payments on the outstanding Bonds and the estimated debt service payments on the 2008 Bonds are set forth in the following table:

Annual Debt Service

Year Ended June 1	Debt Service on Outstanding Bonds	Debt Service on 2008A Bonds	Debt Service on 2008B Bonds	Total Debt Service
2009	$95,248,725			
2010	95,206,275			
2011	96,121,388			
2012	96,117,325			
2013	96,121,050			
2014	34,110,000			
2015				
2016				
2017				
2018				
2019				
2020				
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2033				

THE AUTHORITY

Overview

The State created the Authority in 1935 as a conservation and reclamation district and declared it to be a governmental agency and body politic and corporate of the State. The district includes 24 counties located in the northeast part of the State. The Grand River is formed by the junction of the Neosho and Spring Rivers about ten miles southeast of the City of Miami in the northeastern corner of the State. The river flows southerly and southwesterly about 125 miles and empties into the Arkansas River. The Grand River lies entirely within Oklahoma but its drainage basin of about 12,500 square miles also extends over the states of Arkansas, Kansas and Missouri.

Pursuant to the Act, the Authority has the power to control, store, preserve and distribute the waters of the Grand River and its tributaries for any useful purpose (subject to the right of certain municipalities to take such quantities of water as may be needed by such municipalities), to develop and generate water power, electric power and electric energy within the boundaries of the Authority, and to buy, sell, resell, interchange and distribute electric power and energy. The Authority is also empowered to acquire property and construct, use and operate any and all facilities of any kind necessary or convenient to the exercise of its powers, rights, privileges and functions, to borrow money for its corporate purposes subject to statutory dollar limitations and to sue and be sued.

The validity of the Act, including the public purpose of the Authority and certain other matters relating to the establishment and operation of the Authority, has been upheld by the Supreme Court of the State. Sheldon v. Grand River Dam Authority *et al.*, 182 Okla. 24, 76 P.2d 355 (1938).

The Authority has been operating power facilities since the original construction of its Pensacola Plant in 1941. Although the Authority is permitted by the Act to engage in the residential retail sale of power within certain geographic boundaries, it has concentrated its activities on the generation, transmission and sale of power to municipal or other public authority consumers, electric cooperative consumers and certain large industrial consumers. Investor-owned utilities also have facilities and serve customers within the same areas as the Authority.

The Authority operates a two-unit Coal-Fired Generating Complex ("*CFC*"), consisting of GRDA 1, which is wholly-owned by the Authority, and GRDA 2, 62% of which is owned by the Authority and 38% of which is owned by KAMO Power ("*KAMO*"). The net generation capability of the Authority's ownership interest in the CFC is 812 MW. The Authority also owns and operates its hydroelectric Pensacola Project, Markham Ferry Project (Kerr Dam) and Salina Pumped Storage Project, with an aggregate net generation capability of approximately 1,306 MW, and transmission and other facilities. See "THE SYSTEM".

The rates charged by the Authority for the sale of electric power and energy are not currently regulated by any state or Federal authority. See "ELECTRICAL REVENUE BASE — Authority Rates". The Resolution and the Act impose rate covenants on the Authority, and the State has reserved the right to regulate rates subject to certain limitations. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Rate Covenant; Covenant of State". For a description of proposals which could affect regulation of the Authority, see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY".

The rate structure of the Authority provides for the recovery of fuel cost increases and the cost of purchased power through the Power Cost Adjustment ("*PCA*"). See "THE AUTHORITY — Operating Revenues".

The principal office of the Authority is located at 226 W. Dwain Willis Avenue, Vinita, Oklahoma 74301-0409, telephone (918) 256-5545.

Board of Directors

The Authority is governed by a seven-member Board of Directors, consisting of three members appointed by the Governor of the State, one by the Speaker of the State House of Representatives, and one by the President Pro Tempore of the State Senate. One of the Governor's appointments shall represent the industrial and commercial customers, one shall represent economic development interests, lake enthusiasts and property owners, and the Governor's third appointment shall be an at-large member. In addition, the General Manager of the Oklahoma Association of Electric Cooperatives, or his designee,

and Executive Director of the Municipal Electric Systems of Oklahoma, or his designee, shall be voting, *ex-officio* members.

Board members serve staggered, seven-year terms, with one position opening each year, to ensure continuity. Regularly scheduled Board meetings are on the second Wednesday of each month and open to the public. The current directors and information concerning their occupations are listed below.

Board of Directors

Name, Position, Appointment	Business	Residence	Term Expires August 29
Terry G. Frost Chairman Appointed by Governor, At-Large Member	Marina Owner; Land Developer	Afton, Oklahoma	2013
W. Brent LaGere Chairman-Elect Appointed by Speaker of House of Representatives	Insurance Executive	Chandler, Oklahoma	2009
S. Michael Cantrell Member Appointed by President Pro Tempore of Senate	Oil and Gas Executive	Ada, Oklahoma	2010
David J. Chernicky Member Appointed by Governor, representing industrial and commercial customers	Oil Exploration Executive	Tulsa, Oklahoma	2014
James E. Frasier Member Appointed by Governor, representing economic development interests, lake enthusiasts and property owners	Attorney	Tulsa, Oklahoma	2008
Gerald "Buck" Gay *Ex-Officio* Member Oklahoma Association of Electric Cooperatives General Manager designee	Retired Education Administrator	Adair, Oklahoma	Ex-Officio
Steve Spears *Ex-Officio* Member Municipal Electric Systems of Oklahoma Executive Director designee	Municipal Management; Engineer	Cushing, Oklahoma	Ex-Officio

Management

The principal officers of the Authority, with information concerning their backgrounds and experience, are listed below.

Principal Officers

Name	Title	Energy Sector Experience
Kevin A. Easley	Chief Executive Officer	20 Years
Michael S. Kiefner	Chief Operating Officer	20 Years
Carolyn Vowell Dougherty	Chief Financial Officer/Treasurer	22 Years
Gretchen Zumwalt-Smith	General Counsel	5 Years
Donna M. Jones	Corporate Secretary	27 Years
Charles J. Barney	Assistant General Manager of Thermal Generation	32 Years
Anthony Due	Assistant General Manager of Operations and Hydro	35 Years
Robert W. Sullivan, Jr.	Assistant General Manager of Risk Management and Regulatory Compliance	31 Years
Dale Willis	Assistant General Manager of Transmission	30 Years

Kevin A. Easley is Chief Executive Officer. Mr. Easley, who joined the Authority in 2004, received degrees in accounting and business management from the University of Tulsa. He served 20 years in the Oklahoma Legislature, having authored some of the most progressive energy legislation in the country. He is the former Chair of the Oklahoma Senate Energy, Environment and Natural Resources Committee. Prior to joining the Authority, he served as an executive with Samson Resources, Oklahoma's largest independent energy firm. In 2005, Mr. Easley was approved to the Board of Directors of Southwest Power Pool and the American Public Power Association.

Michael S. Kiefner is Chief Operating Officer. Mr. Kiefner, who joined the Authority in 2004, holds a Juris Doctorate from Oklahoma City University. He has previously served as Staff Attorney to the Oklahoma State Senate and former General Counsel to a large Oklahoma-based financial institution.

Carolyn Vowell Dougherty is Chief Financial Officer/Treasurer. Ms. Vowell-Dougherty, who joined the Authority in 1986, is a Certified Public Accountant and received a Bachelor of Science from Oklahoma State University. She was a Senior Emerging Business Consultant with Deloitte, Haskins and Sells for three years. She served eighteen years as special projects director for the GRDA General Manager before being named Assistant General Manager of Market Analysis and Strategic Development in 2004.

Gretchen Zumwalt-Smith is General Counsel. Ms. Zumwalt-Smith, who joined the Authority in 2005, received a Juris Doctorate from the University of Oklahoma. Prior to joining the Authority, she served ten years as Assistant Attorney General for the State and was in private practice for ten years, concentrating in the areas of securities and commercial litigation.

Donna M. Jones is Corporate Secretary. Ms. Jones, who joined the Authority in 1980, has a degree in Business Management and Administration from Rogers State University. She has served as secretary to the General Counsel and presently serves as personal secretary to the Chief Executive Officer and Chief Operating Officer.

Charles J. Barney is Assistant General Manager of Thermal Generation. Mr. Barney, who joined the Authority in 1988, is a Registered Professional Engineer in the State and received a Master of Science in Mechanical Engineering from the University of Arizona. Before joining the Authority, Mr. Barney served as a power plant design engineer and power plant superintendent.

Anthony Due is Assistant General Manager of Operations and Hydro. Mr. Due, who joined the Authority in 1973, is a graduate of Draughons School of Business. He is certified by the North American Electric Reliability Council and is a Member of the Western Systems Power Pool Operating Committee.

Robert W. Sullivan, Jr. is Assistant General Manager of Risk Management and Regulatory Compliance. Mr. Sullivan, who joined the Authority in 1976, received a Juris Doctorate from the University of Tulsa and is the Authority's designated representative for Emissions Compliance (CFC Unit 1 & 2). Mr. Sullivan is a Lt. Colonel in the Oklahoma National Guard, assigned to the statutory position of State Judge Advocate.

Dale Willis is Assistant General Manager of Transmission and Engineering. Mr. Willis, who joined the Authority in 1978, has over three decades of experience in power line maintenance responsibilities.

Workforce

The Authority maintains a workforce of approximately 500 personnel at its plants and offices system-wide. Employees are hired under guidelines established by the Oklahoma Office of Personnel Management. Employees have access to a trades apprentice program in conjunction with the U.S. Department of Labor. Although the Authority does not recognize union membership, employees have direct input to management through a communications committee representing all Authority departments.

Historical Operating Results

The following tables set forth a summary of the unaudited historical operating results and bond service coverages of the Authority for the years 2003 through 2007 and selected fund balances as of December 31, 2007. Appendix D hereto contains the audited financial statements of the Authority for the fiscal years ended December 31, 2007 and 2006.

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HISTORICAL OPERATING RESULTS[1]
Unaudited

	Year Ended December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
Operating Revenues: [2]					
Municipal Power Sales	$94,844,455	$101,078,663	$116,869,309	$116,614,608	$118,279,132
Electric Cooperative Power Sales	19,669,977	18,505,962	23,228,031	26,144,914	26,249,680
Industrial Power Sales	18,253,121	20,049,659	22,748,028	24,997,953	25,960,433
Off System Power Sales — Firm	50,624,563	53,572,471	60,021,769	55,890,706	55,023,861
Off System Power Sales — Spot	17,451,365	20,716,065	17,377,449	4,136,057	30,044,533
Other Power Sales[3]	4,994,484	5,246,951	5,156,961	6,207,254	5,851,260
Collection of Power Cost Adjustment	0	0	13,009,632	37,015,594	35,490,190
Gross Power Sales	$205,837,965	$219,169,771	$258,411,179	$271,007,086	$296,899,089
Other Operating Revenues	8,210,373	15,581,629	9,437,297	11,099,095	10,004,225
Total Operating Revenues[2]	$214,048,338	$234,751,400	$267,848,476	$282,106,181	$306,903,314
Operating Expenses:					
Fuel	$60,691,493	$56,396,020	$61,999,460	$65,511,590	$75,652,926
Electric Production (excluding fuel)					
Coal Fired Plants[4]	13,393,053	18,334,512	12,820,070	19,532,765	15,113,933
Pensacola Hydro	1,718,727	1,700,130	2,046,158	2,215,249	2,088,470
Markham Ferry Hydro	1,504,558	4,026,856	1,774,782	1,976,514	2,696,171
Salina Pumped Storage	1,871,449	1,048,734	2,242,794	1,655,353	1,384,996
Other Operating Expenses[5]	13,872,595	15,070,002	21,833,822	18,109,364	17,209,965
Transmission	9,024,978	10,176,596	13,745,455	15,554,392	18,577,313
Purchased Power	7,773,382	14,646,299	47,980,861	57,142,790	28,974,960
Total Operating Expenses	$109,850,235	$121,399,149	$164,443,402	$181,698,017	$161,698,734
Net Operating Revenues	$104,198,103	$113,352,251	$103,405,074	$100,408,164	$145,204,580
Other Income[6]	9,888,845	8,665,074	10,971,748	11,464,743	19,691,690
Net Revenues Available for Bond Service	$114,086,948	$122,017,325	$114,376,822	$111,872,907	$164,896,270
Other Available Funds	0	0	0	0	0
Total Funds Available for Bond Service	$114,086,948	$122,017,325	$114,376,822	$111,872,907	$164,896,270
Bond Service	95,289,541	95,326,966	95,491,484	95,480,729	95,429,572
Balance After Bond Service[7]	$18,797,407	$26,690,359	$18,885,338	$16,392,178	$69,466,698
Refund of Power Cost Adjustment	(6,800,291)	(9,507,983)	0	0	0
Available for Capital Improvements or Other Authorized Purposes	$11,997,116	$17,182,376	$18,885,338	$16,392,178	$69,466,698
Bond Service Coverage Including PCA[8]	1.13	1.18	1.20	1.17	1.73

[1] Excludes interdepartmental sales and expenses. Also excludes depreciation, which is not included in Maintenance and Operation Costs, as defined in the Resolution, and does not require a cash outlay. Also, excludes other items, as detailed in the succeeding footnotes.

[2] Not presented in accordance with GAAP, due to adjustments for Over (Under) Recovered Fuel Costs of $3,026,638, ($1,759,356), ($11,753,913), ($5,816,468) and $18,434,306 in 2003, 2004, 2005, 2006 and 2007, respectively.

[3] Includes sales to Oklahoma Municipal Power Authority. Oklahoma Municipal Power Authority's portion includes its share of Authority debt service relating to GRDA 2 and common facilities, transmission service, fuel costs, fixed and variable operating expenses and administrative and general expenses.

[4] Reflects the Authority's 62% undivided ownership of GRDA 2.

[5] Includes water operations and maintenance, lake patrol, customer accounting and administrative and general expenses.

[6] Consists primarily of interest income. Excludes amortization of forward investment contract receipts of $1,207,458, $1,201,640 $1,124,604, $1,198,457, and $1,198,457 in 2003, 2004, 2005, 2006, and 2007 respectively. Also excludes change in fair value of instruments of ($2,900,682), ($1,690,872), ($1,967,210), ($171,278), and $2,840,957 in 2003, 2004, 2005, 2006, and 2007 respectively, interest income restricted for construction of $608,322, $457,165, $284,776, $233,409, and $146,363 in 2003, 2004 2005, 2006, and 2007 respectively, interest income restricted for special purposes of $4,535, $6,973, $14,802, and $13,102 in 2004, 2005, 2006, and 2007 respectively, and allowance for funds used during construction of $224,732 and $860,403 in 2006 and 2007.

[7] Funds available for Power Cost Adjustment, capital expenditures and other lawful purposes.

[8] Total Funds Available for Bond Service divided by Bond Service.

SOURCE: *The Authority*

As of December 31, 2007, selected fund balances are set forth below:

Selected Fund Balances
As of December 31, 2007

	Balance	Interest Receivable	Total
Restricted for:			
Bond Service Reserve Account[1]	$ 96,121,388.00		$ 96,121,388.00
Reserve and Contingency Account	24,030,347.00		24,030,347.00
Construction Account[1]	27,500,000.00		27,500,000.00
2002 Construction Account	2,112,590.90		2,112,590.90
Bond Service Account[1]	42,339,464.61	141,124.73	42,480,589.34
Fish and Wildlife Fund	307,066.35	531.74	307,598.09
Board Designated:			
Supplemental Reserve & Cont Fund I	$ 10,000,000.00		$ 10,000,000.00
Supplemental Reserve & Cont Fund II	15,000,000.00		15,000,000.00
Unrestricted:			
General Operating Accounts	$ 56,724,276.05	$ 1,229,087.45	$ 57,953,363.50
Total Cash and Investments	$274,135,132.91	$ 1,370,743.92	$275,505,876.83

[1] *Excess deposits in these accounts, not legally restricted, have been reclassified as General Operating Accounts.*

Historical information regarding the Authority's energy requirements and resources, contract demand and resources, and sales by customer group for the years 2003 through 2007 follows:

Historical Energy Requirements and Resources (MWh)

			Resources				
Year	Total Sales	Sales plus Losses[1]	Hydro Generation	Steam Generation	Purchased Power[2]	SWPA Allocation[3]	Total
2003	6,005,273	6,700,865	739,549	5,734,196	203,072	24,048	6,700,865
2004	6,165,018	6,972,052	1,288,013	5,099,124	547,293	37,622	6,972,052
2005	6,701,330	7,187,973	963,381	5,361,969	828,723	33,900	7,187,973
2006	6,098,027	6,551,712	340,601	5,029,856	1,163,942	17,313	6,551,712
2007	6,674,739	7,269,204	1,075,448	5,630,573	527,821	35,362	7,269,204

[1] Sales plus losses, pumping and interdepartmental use.

[2] Includes replacement energy plus net energy from banking arrangements.

[3] The Authority is scheduling agent for the Skiatook Public Works Authority, Oklahoma, and the City of Coffeyville, Kansas, allocations of SWPA (Southwestern Power Administration) hydro power.

SOURCE: *The Authority*

Historical Peak Demand and Resources (MW)

Year	Delivered Contract Peak Demand[1]	Undelivered Contract Peak Demand[2]	Total Contract Peak Demand	Contract Peak Demand plus Reserves[3]	Resources: Hydro Generation[4]	Resources: Steam Generation[5]	Resources: Purchased Power[6]	Resources: Total
2003	1,009	79	1,088	1,122	494	812	90	1,396
2004	1,107	0	1,107	1,141	494	812	0	1,306
2005	1,210	0	1,210	1,243	494	812	0	1,306
2006	1,085	0	1,085	1,117	494	812	0	1,306
2007	1,115	0	1,115	1,147	494	812	206	1,512

(1) Excludes the portion of KAMO's demand supplied from KAMO's 38% ownership interest in GRDA 2, which was placed in commercial operation April 1,1986 and power purchased from other sources effective July 1, 1998.

(2) Schedules interrupted by the Southwest Power Pool (SPP) for line loading relief.

(3) Beginning in 2000, planning reserves are 12% of total capacity. Currently SPP calculates reserves based on 100% of the capability of the largest and 50% of the second largest SPP units times the ratio of generating capability of participating SPP members.

(4) Includes Pensacola, Markham Ferry and Salina Pumped Storage capability. The Salina Pumped Storage capacity in the amount of 260 MW is limited up to 25% daily plant factor operation and therefore suitable for peaking operations only. During 1999 two units at Pensacola were upgraded from 16 MW to 20 MW with the four remaining units being upgraded in 2000, 2001, 2002, and 2003.

(5) Includes the Authority's 62% ownership interest in GRDA 2.

(6) Includes 150 MW capacity contract with Westar Energy beginning June 1, 2007 and 56.2 MW capacity contract with City of Coffeyville, KS beginning August 1, 2007.

SOURCE: The Authority

Historical Sales by Customer Group (MWh)

Year	Cooperative[1]	Municipal	Industrial	Other[2]	Off System Firm	Total Contract Sales	Off System Spot	Total Sales
2003	484,946	2,747,333	531,136	171,755	1,593,488	5,528,658	476,615	6,005,273
2004	443,742	2,850,359	593,349	170,278	1,622,823	5,680,551	484,467	6,165,018
2005	555,078	3,140,142	638,268	155,001	1,866,390	6,354,879	346,451	6,701,330
2006	583,181	2,990,548	650,148	141,144	1,642,752	6,007,773	90,254	6,098,027
2007	587,543	3,068,267	668,840	176,206	1,625,919	6,126,775	547,964	6,674,739

(1) Excludes the portion of KAMO's energy supplied from KAMO's 38% ownership interest in GRDA 2 and other suppliers.

(2) GRDA 2 output power sales to Oklahoma Municipal Power Authority.

SOURCE: *The Authority*

In 2007 and 2006, the Authority had two customers that each accounted for more than 10% of the Authority's Operating Revenues for those years. Sales to the City of Coffeyville, Kansas, totaled $30.9 million and $29.5 million for the years 2007 and 2006, respectively, and sales to Northeast Oklahoma Electric Cooperative, Inc. ("*NEO*") totaled $29.9 million and $30.0 million of the years 2007 and 2006, respectively.

MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS

Net Assets

Net Assets increased $91.1 million or by 57% in 2007, following a similar 52% increase or $54.4 million in 2006, and a 54% increase or $36.6 million during 2005. The recent changes in Net Assets are in marked contrast to financial results prior to the Board's 2004 and 2006 rate actions, discussed above, when annual increases to Net Assets averaged only $2.2 million for the five year period from 1998 through 2003. Total Assets increased $27.0 million in 2007 following an increase of $4.4 million in 2006. The increase in 2006 marked the first in several years where Total Assets and Net Utility Plant did not decline.

Current Assets increased $13.9 million or 6% during 2007 after increasing $4.7 million or 2% during 2006. During 2007, current cash and investments increased by a total of $30.3 million while the combined total of current accounts receivable and under recovered fuel costs decreased by a total of $22.5 million. In contrast, the opposite occurred during 2006, when current cash and investments decreased by a total of $26.3 million while the combined total of current accounts receivable and under recovered fuel costs increased by $18.6 million. The shift in balances reflects the collection of the power cost adjustment during 2007 for fuel and purchased power expenses paid in previous years. Inventories, including both fuel and materials and supplies, also increased by a total of $6.2 million and $12.4 million during 2007 and 2006 accounting for the remaining shift in current asset balances.

For the first time in several years, additions to Net Utility Plant exceeded depreciation expense during 2006, as net capital additions in excess of $26 million were slightly more than the current depreciation of $25.9 million. The net increase during 2007 was relatively substantial as capital additions in excess of $33.7 million significantly exceeded 2007 depreciation of $26.3 million. Restricted Investments and other Noncurrent Assets in 2007 remained consistent with the prior year balances.

The most significant change in Net Assets is attributable to the repayment of long-term debt, as has been the case in past years. Total Liabilities decreased by $64.1 million or 11% during 2007 and $49.9 million or 8% during 2006, primarily due to scheduled bond principal payments of $65.0 million and $61.5 million in 2007 and 2006. Accounts Payable balances in 2007 did not change significantly from prior year balances.

Unrestricted Net Assets (the part of net assets used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal agreements) increased by $17.4 million during 2007 after remaining relatively constant in the previous two years. The increase is directly related to the Board establishing rates sufficient to reflect the Authority's cost of service. Net Assets Restricted for Debt Service increased in proportion to the increasing principal portion of sinking fund payments for repayment of long-term debt. In contrast, Net Assets Invested in Capital Assets Net of Related Debt increased by $153.0 million over the past two years and moved to a positive balance primarily as the Authority made large principal payments to Bondholders of $65.0 million and $61.5 million in 2007 and 2006. The Authority paid for a significant portion of capital additions with current revenue collections instead of bond proceeds, which also contributed to the increase.

Operating Results

Extremes in weather conditions contribute directly to the fluctuations shown in the sales during the past three years and ultimately, the financial results. One of the worst droughts in Oklahoma history began in late summer of 2005. Without any significant inflows into the Grand River watershed, hydroelectric generators at both the Pensacola and Kerr Dams sat idle beginning in September 2005 and continued throughout most of 2006, reducing excess sales made to the spot market. In 2007, the inflows were greater than the previous two years and provided an opportunity for an increase in spot sales over the previous two years.

Likewise, in 2005 following a Federal Energy Regulatory Commission ("*FERC*") inspection and canal repairs, the generators remained idle at the Salina Pumped Storage Project from October 2005 until June 2006 when Lake Hudson elevation levels returned to an adequate level so that water could be pumped to refill the W. R. Holway Reservoir. In 2007, an adequate water supply afforded the Authority the ability to utilize the Salina Pumped Storage Project for peaking generation.

Without adequate hydroelectric generation to help supplement the electricity produced at its CFC, the Authority was forced to purchase power on the open market. As the drought wore on, the Authority's purchased power costs continued to climb to record levels in 2005, followed by even higher purchase levels during 2006. Run-of-the-river generation from Kerr and Pensacola Dams set record lows during 2006. Historically, purchases have averaged approximately 5% of total resources, although the significantly higher power purchases represented 18% of total energy resources in 2006. However in 2007, the favorable hydro conditions allowed purchased power to return to a more acceptable level of 7%.

Hydro inflows during 2007 provided more generation than the previous two years. The run-of-the-river generation was higher than average, and the Salina-pumped storage was available for use throughout 2007 enabling the Authority to utilize the peaking generation as needed. In addition, the CFC had no major maintenance outages during 2007, and as a result, GRDA 2 set record generation. The overall quantity of power purchased in 2007 was less than in the two previous years. For the most part, purchases were to supplement generation during the routine spring and fall outages at the CFC and across the peak summer load period.

Operating Income

Operating Income increased by $20.2 million or 25% in 2007 after decreasing by $9.3 million or 10% the previous year. Operating Revenues remained fairly constant and increased by only $550 thousand in 2007 after increasing by $8.3 million during 2006, while Operating Expenses decreased $19.6 million after increasing $17.6 million during 2006.

The 2007 decrease in Operating Expenses was directly attributable to an $18.0 million net reduction in fuel and purchased power. The effect of the additional hydro and thermal generation in 2007 previously discussed, resulted in a $28.1 million reduction for purchased power, offset by a $10.1 million increase in fuel expense.

Operating Income is combined with other Nonoperating Revenues, primarily interest and investment income, to pay the Authority's expenses. Revenues have consistently exceeded expenses since the implementation of the rate increases and Sales of Power provide the majority of money to repay the Authority's debt and cover operating costs.

Debt payments, principal and interest, recovered primarily through the Authority's rates. The Authority's rate structure is based on a cost-of-service approach of which debt service payments, fuel and purchased power, and other operating expenses are the principal components. In 2007, excess revenues were utilized primarily to finance capital additions to the System and inventories.

Operating Revenues

Total Operating Revenues continue to set new record highs each year, with Sales of Power driving the increases. The Authority frequently supplements generation with purchased power in order to meet contractual requirements. The Authority's rate structure provides for the recovery of any corresponding increases in fuel or purchased power through the PCA.

The Authority's power cost adjustment mechanism with customers is calculated on a 12-month rolling basis and is normally revised twice a year. Sales of Power include any PCA surcharge as the "true up" adjustment passes through the cost of the generating fuel and purchased power.

The revenues also reflect an accrual of any over or under collected fuel cost. The Authority collected surcharges for the PCA of $35.5 million and $37.0 million during 2007 and 2006. Sales of Power included a $18.4 million revenue reduction for Over Recovered Fuel Costs during 2007 and an accrual of $5.8 million of Under Recovered Fuel Costs during 2006. The 2006 record revenues were driven partially by the pass-through of fuel and purchased power costs collected through the PCA surcharge. Overall revenues were up from a combination of the PCA surcharge and higher rates even though kWh sales were slightly lower. However, 2007 record revenues included the first year with the full impact of both rate increases, while at the same time, all customer classes of loads reflected continued growth. In 2007, Sales of Power also included a $26.0 million increase in spot sales over 2006.

Even with the rate increases and collection of fuel surcharges, the Authority contract rates remain among the lowest in the nation. The Authority's competitive rate structure was a key factor in the decision of municipal customers to sign long-term, all-requirements contracts, and in the decision of industrial customers, such as Google, Inc., to select the MidAmerica Industrial Park for expansion of their business.

A comparison of the Authority's historic average contract prices to the Authority's average spot prices for any excess energy sold at market prices, provides an indication of the competitiveness of the Authority's rates and the advantage that abundant hydro generation provides. The Authority's average rates remain below 4.5 cents per kWh. The average rates collected in 2007 were slightly lower than the average rates collected during 2006, primarily due to a reduction in the PCA surcharge collected. That trend continues during the first half of 2008. The Authority again lowered the PCA surcharge for the first half of 2008, since the undercollected fuel charges from 2005 and 2006 were fully recovered during 2007.

Operating Expenses

Operating Expenses decreased by $19.6 million during 2007 after increasing $17.6 million during 2006. Record purchased power drove the increases in previous years as the impact of the prolonged drought and associated lack of hydro-generation was two-fold. Not only was the Authority forced into the spot market to replace the quantity of generation normally provided by the dams and pumped back project, but without the peaking power available, the purchases were made at high load usage periods and came at correspondingly high prices. During 2007, purchased power decreased by $28.2 million as both hydro and thermal MWhs generated were above average. In addition, the Authority made a firm purchase of power and energy from Redbud at a favorable price. This purchase reduced the volatility of energy prices from the spot market and also allowed the Authority to obtain a firm transmission path for the purchased energy, improving reliability.

The purchased power savings were offset to an extent by continually rising fuel costs. Coal and freight are the largest operating expenses at the CFC. To help address difficulty in obtaining coal deliveries, the Authority entered into leases for additional rail cars and has continued to pursue improved coal deliveries and price protection. The rising cost of coal and freight has increased the average cost of fuel burned per MMBtu 2% and 12% in 2007 and 2006. Fuel costs increased $10.1 million and $3.5 million during 2007 and 2006. The 2007 fuel increases were attributable to both rising coal and transportation costs as well as the increase in thermal MWhs generated.

Maintenance costs were also down in 2007 from 2006 when during the 20-year outage of GRDA 2, the Authority personnel along with contractors successfully completed over 600 work orders relating to several major projects. Other operating expenses remained relatively consistent with the prior year.

Capital Assets

Net Utility Plant increased from $399.9 million to $413.6 million in 2007. In 2006, Net Utility Plant increased from $399.4 million to $399.9 million, or by $472 thousand. Of significance is that after several years of decreasing net plant balances, the trend reversed in 2006. The net plant increases reflect

the investments in capital assets to provide future benefits to the Authority customers offset by current year depreciation of $26.3 million and $25.9 million in 2007 and 2006. The majority of Net Utility Plant consists of an economical mixture of hydroelectric and thermal generation resources and a transmission system for the delivery of power and energy.

The major additions during 2007 and 2006 included a large assortment of information technology projects. Projects included a rebuild of the Authority's microwave communication system, replacement of voice telecommunications, a rebuild of the network infrastructure, as well as replacing metering and software. Other projects included an upgrade of the Energy Control Center computers and the initiation of facility renovations to meet North American Electric Reliability Corporation criteria. Effective January 1, 2007, the North American Electric Reliability Council and the North American Electrical Reliability Corporation merged, with NERC Corporation ("*NERC*") being the surviving entity.

In addition, GRDA 2 at the CFC underwent the largest scheduled maintenance outage ever performed during its 20 years of operation during 2006. While the unit was out of service, capital projects included the complete replacement of tubing in the reheater section of the unit's boiler, replacement of air heater baskets and replacement of the computer control system on the unit's flue gas desulfurization unit. Upgrades continued at the CFC during 2007, with a new GRDA 2 turbine generator control system, a mercury monitoring system and fire suppression equipment installations.

FERC, in 2006, issued a new 30-year license to the Authority to operate the Markham Ferry Project, which includes the Robert S. Kerr Dam and Lake Hudson. In 2007, the Authority began a multi-year upgrade of Kerr Dam's four turbine-generators. The total project is anticipated to cost over $70 million and work on the units will be staggered through 2012.

Additional major additions in 2007 related to the transmission system. Lines and substations were planned in order to handle the loads of new and growing industrial customers. However, over $8 million of line reconstruction was added under emergency conditions as a result of two Oklahoma ice storms. Most of the damage to the Authority's transmission system was sustained during the January 2007 storm. Reimbursements from the Department of Homeland Security, Federal Emergency Management Agency were recognized as non-operating revenues relating to the ice storm reconstruction and damage.

Restricted Assets

The Resolution requires that the Bond Service Reserve Account be equal to the "Maximum Aggregate Bonds Service" and the Reserve and Contingency Fund be equal to 25% of that same amount. To comply with the Resolution, the Authority restricted an amount equal to $120,151,735, as reflected in the December 31, 2007 financial statements, of which $96,121,388 was deposited in the Bond Service Reserve Account and $24,030,347 was deposited in the Reserve and Contingency Fund.

Additional amounts are restricted for the bond service sinking fund payments made to the Bond Fund Trustee for annual principal and semiannual interest payments.

The amounts reflected as restricted for construction in 2007 relate to two different construction accounts. At the end of 2007, $2.1 million remained in the account 2002 Construction Account. The 2002 Construction Account was utilized for capital additions until the balance was depleted in early 2008. The other Construction Account, which had a balance of $27.5 million on December 31, 2007, was originally held by the Bond Fund Trustee in escrow for a project that was terminated in late 2005. In March 2008, the Authority passed a resolution authorizing that the account balances be utilized for approved capital projects or to redeem outstanding bond principal. As a result, the Authority instructed the Bond Fund Trustee to utilize the construction account balance to make bond principal sinking fund payments for March through July 2008. The $27.5 million balance, which remained restricted under the Resolution, was fully depleted in July, 2008.

The final restricted accounts for special purposes relate to wildlife mitigation pursuant to hydro licensing requirements.

Regulatory Assets

The Authority follows Statement of Financial Accounting Standards (SFAS) No. 71 in regulatory reporting which requires utilities to match costs in the same period the revenues are collected. In 2007, the only remaining regulatory asset is the deferred interest costs related to the 2002B capital appreciation bond issue. The $3.9 million balance in Costs to Be Recovered from Future Revenues includes the cumulative deferral of interest expense net of any interest income earned on the 2002B Construction Fund Investments. The deferred asset will continue to increase annually until revenues are collected to pay the 2002B principal and cumulative interest at maturity on June 1, 2014.

Long-Term Debt

The repayment of the Authority's outstanding Bonds continued to impact the change in Net Assets in a positive manner by increasing the ratio of utility plant to debt. The Bond Fund Trustee paid Bondholders principal payments of $65.0 million and $61.5 million on June 1, 2007 and 2006.

The Authority makes monthly sinking fund payments to the Bond Fund Trustee which are reflected as Current Investments "restricted for bond service." The Bondholders are then paid annual principal payments on June 1 and semiannual interest payments on June 1 and December 1 of each year. The Authority's debt service payments are structured to remain fairly constant at approximately $96 million per year through 2013. The principal and interest totaling approximately $34 million on the 2002B Capital Appreciation Bonds will be repaid on June 1, 2014. The 1993, 1995, and 2002 Bonds outstanding are not subject to redemption prior to the maturity of the Bonds.

AMBAC Indemnity Corporation ("*AMBAC*") insures the Authority's $173.4 million outstanding 1995 Bonds with maturities in June 2011 and 2013. On January 18, 2008, Fitch Inc. ("*Fitch*") downgraded AMBAC to a rating of "AA", and assigned a negative outlook. On June 5, 2008, Standard & Poor's, a division of The McGraw-Hall Companies, Inc. ("*S&P*") also downgraded AMBAC to "AA", with a negative outlook. This was followed by action by Moody's Investors Service, Inc. ("*Moody's*"), which downgraded AMBAC to "Aa3," with a negative outlook. Fitch has withdrawn its rating of AMBAC at AMBAC's request.

ELECTRICAL REVENUE BASE

Overview

The Authority's primary source of revenue is derived from the sale of wholesale electric power. The Authority's customers include electric cooperatives, municipalities, public authorities, and industries. For a description of certain matters that may affect the Authority's and its customers' electrical revenue base and regulation thereof, see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY".

The Authority transmits power over approximately an 18,000 square mile area encompassing 24 counties in the northeastern quadrant of Oklahoma adjoining Kansas on the north and Missouri and Arkansas to the east. Other electric utilities serving the area include OG&E, Public Service Company of Oklahoma ("*PSO*"), Western Farmers Electric Cooperative ("*WFEC*"), Empire District Electric Company, and certain municipalities, public authorities and electric cooperatives, as well as the Authority's wholesale customers.

Although created as a conservation and reclamation district to operate within the boundaries of the following counties: Adair, Cherokee, Craig, Creek, Delaware, Haskell, Latimer, Lincoln, Logan, McIntosh, Mayes, Muskogee, Nowata, Okmulgee, Osage, Ottawa, Pawnee, Payne, Pittsburg, Rogers, Sequoyah, Tulsa, Wagoner and Washington, the Authority is now authorized pursuant to the Act to own, construct and operate power generating facilities within or without the boundaries of such district. Generation transmission lines and transformation equipment can also be located outside the boundaries of these counties. The Authority also delivers power to customers in neighboring states.

Authority Rates

The Authority is empowered to set rates as necessary to provide for operating expenses and debt service payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Rate Covenant; Covenant of State". When deemed necessary by the Board of Directors, rates can be raised within 60 days of posted notice. As an agency of the State, the Authority is a self-regulated entity, and therefore its rates do not come under the jurisdiction of the Oklahoma Corporation Commission. The rates charged by the Authority for the sale of electric power and energy are not currently regulated by the FERC or by any other state or Federal authority although the Authority participates in the Southwest Power Pool ("*SPP*") regional transportation tariffs. For a description of certain matters that may affect electric rates and the regulation of Authority rates, see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY".

The Authority implemented the PCA in 1981 to afford customers more rate stability and to assist them in more accurately forecasting power costs. The PCA is an adjustment mechanism that allows the Authority to make adjustments in revenue collections from municipal, industrial, cooperative and off-system firm customers to recover variations between estimated and actual fuel and purchased power costs incurred by the Authority. The PCA is calculated twice a year. The Authority's base rate is calculated using 13 mills as estimated power costs (fuel costs and purchased power). The cumulative difference between the actual fuel costs and the 13 mill base PCA rate is adjusted to reflect the actual costs of fuel used in production. The customer rates then reflect this adjustment.

A summary of the Authority's power sales and revenues by customer classifications for 2007 follows. Revenues are stated both before and after application of PCA.

Sales of Electric Power and Energy
For the Year Ended December 31, 2007

	Sales (1000 kWh)	Revenues (Before PCA)	Revenues (After PCA)
Cooperatives	$ 587,543	$ 26,249,680	$ 29,815,348
Municipalities	3,068,267	118,279,132	135,974,389
Industrial	668,840	25,960,433	30,057,606
Other Power Sales[1]	176,206	5,851,260	5,851,259
Off System Power Sales — Firm	1,625,919	55,023,861	65,155,954
Total Contract Sales	$ 6,126,775	$231,364,366	$266,854,556
Off System Power Sales — Spot	547,964	30,044,533	30,044,533
Under/(Over) Collected PCA			(18,434,306)
Total Power Sales[2]	$ 6,674,739	$261,408,899	$278,464,783
Other Operating Revenues			10,004,225
Total Operating Revenues[3]	$ 6,674,739	$261,408,899	$288,469,008

[1] *GRDA 2 Output Power Sales to Oklahoma Municipal Power Authority.*
[2] *Does not reflect interdepartmental sales.*
[3] *Excludes over collected PCA from previous years.*

SOURCE: *The Authority*

For a description of other historical operating information, see "THE AUTHORITY—Historical Operating Results".

Electric Cooperatives

NEO, an electric distribution cooperative headquartered in Vinita, Oklahoma, is the only electric cooperative currently being served by the Authority. NEO is one of the largest retail electric suppliers in Oklahoma, serving approximately 30,000 meters with a service area of approximately 3,000 square miles. For a description of the Authority's power sales contract with this cooperative, see "Contracts with Customers" below. Sales to NEO represent more than 10% of 2007 Total Operating Revenues.

The following table summarizes the peak demand and sales to NEO for the year ended December 31, 2007:

Electric Cooperatives
Peak Demand, Sales and Revenues
For the Year Ended December 31, 2007

	Customer Since	Contract Expires	Peak kW Demand	Sales (1,000 kWh)	Authority Revenues[1]
Northeastern Oklahoma Electric Cooperative Inc.	1948	2013	156,761	587,543	$29,815,348
Total				587,543	$29,815,348

[1] *After application of PCA.*
SOURCE: *The Authority*

Municipal

The Authority currently serves 19 municipal customers, which represent 44.3% of 2007 Total Operating Revenues. Many of the Authority's customers have been under contract with the Authority for more than 60 years. To mitigate customers' long-term exposure to higher market replacement energy and transmission reliability issues, the Authority worked with its municipal customers to achieve the goal of long-term commitments. The result was standardized, 35-year power and sale contracts that solidified its relationship with these customers. See "Contracts with Customers" below.

The Authority has substations located in each of the municipalities, some of which are owned by the Authority and some by the municipalities, and the Authority has no responsibility for the maintenance or operation of those substations owned by the municipalities. In addition, the Authority has no responsibility for the maintenance and operation of the distribution lines, which are owned by such municipalities. The Authority has no responsibility or jurisdiction over the rates charged by the municipalities to their customers and such rates are not subject to the jurisdiction or approval of any other governmental authority.

The Authority's municipal customers and certain information relating to each are as follows:

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Municipalities
Peak Demand, Sales and Revenues
For the Year-Ended December 31, 2007

Customer	Customer Since	Contract Expires[1]	Peak kW Demand	Sales (1000 kWh)	Authority Revenues[2]
City of Coffeyville, Kansas	1999	2042	110,152	694,896	$28,171,442
Stillwater Utilities Authority	1987	2012	93,375	502,883	21,254,973
Claremore Public Works Authority	1946	2042	79,608	296,987	13,977,545
City of Siloam Springs, Arkansas	1989	2042	60,300	275,802	12,414,075
Miami Public Utilities Board	1947	2042	47,916	201,876	9,307,922
Tahlequah Public Works Authority	1947	2042	48,733	188,099	9,062,290
Sallisaw Municipal Authority	1952	2042	30,220	126,478	6,210,674
City of Pryor Creek Municipal Utility Board	1951	2042	30,599	104,049	4,972,648
Wagoner Public Works Authority	1947	2042	25,641	95,950	4,679,707
Stilwell Area Development Authority	1950	2042	19,510	90,147	4,216,512
Cushing Municipal Authority	1953	2042	18,585	90,061	3,842,456
Byng Public Works Authority [2]	1992	2017	14,643	51,209	2,241,633
Collinsville Municipal Authority [3]	2003	2042	12,525	41,366	1,983,515
Mannford Public Works Authority	2003	2013	9,246	40,226	1,871,743
Skiatook Public Works Authority	1977	2042	17,903	60,115	1,583,143
Stroud Utilities Authority	1986	2042	8,106	29,637	1,444,709
Lindsay Public Works Authority	2000	2025	8,586	29,975	1,400,586
Pawnee Public Works Authority	1953	2042	6,531	22,827	1,127,216
Chickasaw Tribal Utilities Authority [2]	1992	2017	2,659	9,357	441,214
Accrued Revenues				2,923	49,475
Total Municipal Contracts				2,954,861	$130,253,480
Replacement Energy:					
City of Coffeyville, KS[4]				44,392	2,703,807
Stillwater Utilities Authority				58,279	2,536,366
Cushing Municipal Authority[5]				10,735	480,736
Total Replacement Energy				113,406	$5,720,908
TOTAL MUNICIPALITIES				3,068,267	$135,974,389

[1] *After application of PCA.*
[2] *Includes sales for April through December only. Off-System contract was in effect until April 2007.*
[3] *Customer from 1946 through 1993 and from 2003 to present.*
[4] *Ended 07/31/2007*
[5] *Ended 09/30/2007*
SOURCE: The Authority

The first community to sign the new contract was the City of Coffeyville, Kansas, the Authority's largest customer. Coffeyville, which is located just across the Oklahoma border, has a population of over 10,000 with a strong industrial base, accounting for two-thirds of the Authority's sales to Coffeyville. Many Oklahomans work in Coffeyville's industrial park, which includes a nitrogen fertilizer facility and other large employers such as divisions of John Deere, Amazon.com, CVR Energy and Acme Foundry.

Stillwater, Oklahoma (located 60 miles northeast of Oklahoma City), is the Authority's second largest municipal customer. Because the town is home to Oklahoma State University, the population nearly doubles during the school year. Stillwater is also home to a large industrial park served by Stillwater Power (a wholesale municipal customer of the Authority). Major employers located there include, in addition to Oklahoma State University, Mercury MerCruiser and Stillwater Medical Center.

Claremore, Oklahoma (25 miles northeast of Tulsa), is the Authority's third largest municipal customer. Claremore is the seat of Rogers County, and both of which are consistently ranked among Oklahoma's top-five fastest-growing cities and counties. Claremore is also home to a large industrial park served by the Authority's customer, Claremore Municipal Electric. Major employers in Claremore include Centrilift, AXH Air Coolers, Terra Nitrogen, Claremore Regional Hospital, Rogers State University and Wal-Mart.

The Authority serves 17 municipal communities in Oklahoma and two across the State line. While the economic landscape of these communities is built primarily on the agriculture and manufacturing industries, tourism and service-related industries are also contributors. Many of Authority's municipal customers have been buying their power from the Authority for over 60 years. The Authority also serves other public power communities in Oklahoma, Arkansas, Missouri and Kansas through off-system firm contracts.

The retail electric rates charged by the Authority's Oklahoma municipal customers are not currently regulated by the Corporation Commission or any other state or Federal authority. The State has reserved the right to regulate rates subject to certain limitations. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Rate Covenant; Covenant of State".

For a description of certain matters that may affect the business and affairs of these customers and regulation of their rates, see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY".

Industrial and Commercial

The Authority currently serves 79 industrial and commercial customers which represented 9.8% of 2007 Total Operating Revenues.

The MidAmerica Industrial Park (located near the Authority's municipal customer community of Pryor, Oklahoma) is home to most of the Authority's industrial customers. Owned and operated by the Oklahoma Ordinance Works Authority (a public trust of the State), the 9,000 acre park was created in 1960 and remains the largest rural industrial park (by acreage) in the country. The MidAmerica Industrial Park is also considered to be one of the leading centers for manufacturing, processing and distribution in the central United States. The park is home to nearly 80 companies that employ over 4,500 people. The Authority's industrial customers in the park range from Fortune 500 companies to locally based operations. Paper, electronic components and plastics are just a few of the materials manufactured in the park. Features include transportation systems, on-site utilities, cogeneration, steam, water/wastewater treatment facilities, airport with 5,000 foot runway, natural resources, business incentives, labor markets, small to large tracts of land, and lease/financing alternatives. The Authority's CFC and transmission/engineering headquarters are located on the perimeter of MidAmerica.

Google, Inc., also located in MidAmerica Industrial Park, has signed a contract with the Authority. It cited access to inexpensive electricity and water as a reason for its site selection. It is contemplated that Google will be the Authority's largest industrial customer by the end of 2008.

The Authority's 10 largest industrial customers in 2007 and certain information relating to each are shown in the following table:

Ten Largest Industrial Customers
Peak Demand, Sales and Revenues in 2007

Customer	Product	Customer Since	Peak kW Demand	Sales (1000 kWh)	Authority Revenues[1]
Air Products Manufacturing Corp	Industrial Gases	1976	21,012	151,301	$6,428,750
Solae, LLC	Food Supplements	1975	16,676	126,303	5,399,600
Orchids Paper Products Company	Paper Products	1975	10,705	68,124	2,996,525
American Castings, LLC	Iron Castings	2003	14,553	52,311	2,552,621
National Gypsum Company	Building Products	1950	8,307	58,827	2,548,604
Armin Plastics-Central Region	Plastic Bags	1990	6,458	42,216	1,810,243
Georgia Pacific Corporation[2]	Paper Products	1954	5,197	27,869	1,374,971
Wal-Mart Stores East, LP	Distribution Center	2005	4,205	25,561	1,173,505
Oklahoma Ordnance Works Authority	Industrial Park Owner	1946	3,681	15,366	760,126
Chevron Phillips Chemical Company	Plastic Pipe	1966	2,476	16,722	728,109
All Others[3]				84,242	4,284,550
Total				668,840	$30,057,606

[1] *After application of Power Cost Adjustment.*
[2] *Georgia Pacific Corporation has recently announced its plant closure.*
[3] *Google, Inc. has recently established service with the Authority.*
SOURCE: *The Authority*

Oklahoma Municipal Power Authority

The Authority serves OMPA, a joint-action agency headquartered in Edmond, Oklahoma. OMPA was formed in 1981 to supply wholesale electric service to municipal customers. Since 1985, the Authority has served at least 35 Oklahoma cities indirectly through OMPA. OMPA has contracted for 4.81% of output from GRDA 2 under a unit-contingent output contract. Under the terms of the contract, which expires in 2036, OMPA has no ownership rights to the physical plant of GRDA 2, but is responsible for a share of Authority debt service relating to GRDA 2, common facilities, transmission service, fuel costs, fixed and variable operating expenses and administrative and general expenses. In May, 2007, OMPA signed an additional contract with the Authority for another 25 MWs of firm power and electricity.

OMPA represented, in the aggregate, 1.9% of 2007 total operating revenues. Sales to OMPA are classified by the Authority within "other power sales".

Off System Firm

The Authority also has long-term relationships with other off system firm customers. To provide revenue certainty, limited market exposure and enhanced planning capabilities, the Authority has entered into standardized contracts with these customers, which eliminate rate-related termination clauses, "free call options," and the ability of the customers to sell to other entities at a profit.

For the year ended December 31, 2007, the off system firm sales constituted 21.2% of the Total Operating Revenues of the Authority for the same period. The Authority's current off system firm customers are shown in the following table.

Off System Sales — Firm
Peak Demand, Sales and Revenues in 2007

Customer	Customer Since	Contract Expires	Peak kW Demand	Sales (1000 kWh)	Authority Revenues[1]
Paragould, Arkansas, Light and Water Commission	1992	2038	60,000	503,512	$19,729,820
Kansas Municipal Energy Authority [2]	2000	2026	57,000	450,597	17,574,272
City of Poplar Bluff, Missouri	1992	2039	40,000	327,434	12,831,630
City Utilities, Springfield, Missouri [3]	1992	2010	60,000	199,767	9,131,199
Subtotal				1,481,310	$59,266,921
Oklahoma Municipal Power Agency	2007	2040	25,000	126,157	$5,081,226
Byng (OK) Public Works Authority [4]	1992	2007	9,840	15,912	$682,203
Chickasaw Tribal Utility Authority [4]	1992	2007	2,231	2,540	125,604
Subtotal				144,609	$5,889,033
Total Off System Sales — Firm				1,625,919	$65,155,954

[1] *After application of Power Cost Adjustment.*
[2] *Contract demand will increase in 2008.*
[3] *Contract extended for 3 years with demand from zero—60 MW.*
[4] *Off System contract ended March 2007 replaced with municipal contract beginning April 2007*
SOURCE: *The Authority*

Off System Spot

The Authority markets spot sales of power on a next-hour or next-day basis or as part of the Southwest Power Pool energy imbalance market. These power sales are made on an as-available basis. In 2007, off system spot sales represented 9.8% of Total Operating Revenues. Most of the off system spot sales are made pursuant to arrangements associated with the Western System Power Pool or with other interconnected utilities.

Off-System Sales — Spot Revenues

	2003	2004	2005	2006	2007
Total Off System Sales — Spot Revenues	$17,451,365	$20,716,065	$17,377,449	$4,136,057	$30,044,533

SOURCE: *The Authority*

Contracts with Customers

The Authority sells power and energy to its wholesale customers and industrial customers under various power sales contracts, which contain essentially the same provisions, although specific terms may not be identical.

Common to all of the contracts are provisions that sales will be made under rate schedules approved by the Board of Directors, under which the rates, charges, power factor and adjustments for depreciation fund, emergency fund and debt service may be changed in a reasonable and non-discriminatory manner and shall be adequate but not in excess of what may be necessary to fulfill the obligations of the Authority. See "Authority Rates" above. The contracts specify that the Authority will provide power and energy continuously except for interruption due to uncontrollable forces and temporary interruptions or reductions which, in the opinion of the Authority, are necessary or desirable to prevent severe system overloads or for the purposes of maintenance, repairs, replacements, installation of equipment, investigations, and inspections. Each party covenants to exercise due diligence, reasonable care and foresight to maintain continuity of service in the delivery and receipt of power.

NEO, the Authority's cooperative load, signed a contract that contains limited rate-related termination provisions, which have never been exercised. Cooperative customers are served under the conditions of Rate Schedule R - Wholesale Power Rate for Resale.

As previously explained under "Municipal" above, most of the municipal customers have signed new, 35-year contracts under which the Authority will supply all their electric power and energy requirements. See "Municipalities Peak Demand, Sales and Revenues For the Year-Ended December 31, 2007" above.

The Authority has contracted with its industrial customers to serve up to specified load requirements. Many previous and expiring contracts with the industrial customers were for terms ranging from five to fifteen years, and contained various termination provisions. Newer industrial contracts are more standardized and have three-year terms with no rate-related termination provisions.

The Authority assumes that service under its contracts with existing customers will continue for a variety of reasons, including the following: (i) the historical and long-standing customer relationships and the current and future power needs of such customers, (ii) its rates are presently believed and are expected to continue to be highly competitive with the other utilities in the Authority's service area, and (iii) its contractual arrangements with the interconnected utilities which provide for scheduling of maintenance and emergency service.

THE SYSTEM

Overview

The Authority owns power generation and delivery facilities that form a fully integrated System. The Authority's generation facilities and a description of each are as follows:

Generation Facilities of the Authority

	Capacity (kW)	Date of Completion or Acquisition
Pensacola Plant	120,000	1941
Markham Ferry Plant	114,000	1964
Salina Pumped Storage Plant:		
Stage 1	130,000	1968
Stage 2	130,000	1971
Total Hydroelectric Plants	494,000	
GRDA 1	490,000	1981
GRDA 2	322,000[1]	1986
Total	1,306,000	

[1] *Based on the Authority's 62% undivided ownership of Unit No. 2.*
SOURCE: *The Authority*

The Authority's customers benefit overall from economic generation costs from the capital assets discussed in more detail herein. The average rate collected from the Authority's customers is less than 4.5 cents per kWh. The Authority has been able to generate power with hydroelectricity and the CFC, supplemented with purchased power. The hydroelectric resources provide economic generation and a

great deal of dispatching flexibility which add to the Authority's system reliability. In addition, the Authority has the ability to "store" energy to an extent with the Salina Pumped Storage Project.

Pensacola

The Authority's Pensacola hydroelectric project, its first generating facility, was completed in 1941. The power house contains six Francis-type generating units with a combined capacity of 112,000 kW. As part of the Authority's previous system improvements project, the units and their mechanical and electrical controls have been equipped for automated operation. Pensacola Dam impounds approximately 1,672,000 acre-feet of the waters of the Grand River and its tributaries. Flood water storage of 540,000 acre-feet is provided for between the power pool elevation and the top of the spillway gates. The reservoir impoundment formed by the Pensacola is named the Grand Lake O' the Cherokees (Grand Lake).

The Authority has made significant upgrades to the turbine generators at Pensacola Dam. These upgrades have increased the capacity of each unit to over 20 MW.

Markham Ferry

The Markham Ferry project includes the Robert S. Kerr Dam (which impounds Lake Hudson) and the Energy Control Center ("*ECC*") from which all of the Authority's generation resources, interconnection points and transmission system are controlled. The project, completed in 1964, is located on the Grand River in Mayes County, Oklahoma. It is comprised of a concrete and earthen embankment dam forming Lake Hudson, and a 114 MW power house containing four Kaplan-type units. The Authority plans to upgrade the four units between 2009 and 2012 to increase their capacity to 138 MW.

Generation and transmission system dispatching, and spot and firm energy sales and purchases, are transacted from the ECC, as well as coordinating of flood control management in conjunction with the U.S. Army Corps of Engineers.

Salina Pumped Storage

The Salina Pumped Storage Project, which was completed in two stages, the first in 1968 and the second in 1971, consists of six reversible pumps/generators each capable of generating 43 MW. The project allows for water to be pumped into a reservoir during periods when energy costs less, and then the water is released to generate additional energy during periods when the energy is worth significantly more in both market value and system reliability. In the past, the facility provided a reliable source of short-term emergency power and spinning reserves and provided an economic peaking source. The generation-pumpback cycle efficiency of Salina is approximately 60%, so it is typically operated only when the difference in the value of on-peak and off-peak energy is sufficiently large to more than offset the cycle efficiency. The Authority has performed extensive maintenance on Salina, so the units will consistently be able to generate to meet peak demand periods.

Coal-Fired Generating Complex

The GRDA CFC is located three miles East of Chouteau, Oklahoma, and consists of a 490 MW generating unit (GRDA 1) and a 520 MW generating unit (GRDA 2). GRDA 2 is jointly owned by GRDA (62%) and KAMO (38%). The CFC site encompasses an area of about 1,245 acres. Support facilities include water storage, coal storage, cooling towers, and a solid waste landfill. A 345/161 kV electrical switchyard provides distribution of power to customer load.

The CFC is operated by five shifts of operating personnel who are rotated to provide around-the-clock coverage. Operating personnel are trained under specific qualification standards and procedures that are designed to maximize production reliability and efficiency. The CFC is maintained using a computerized maintenance program that includes preventive maintenance programs as well as those for management of work flow and materials inventory. Each unit is removed from service for an annual inspection, and major inspections are scheduled every six years. The efforts of the permanent maintenance staff are supplemented by contractors engaged for specialized expertise and to minimize the length of maintenance outages.

The following table shows equivalent availability percentages for the CFC for the years 2003 through 2007. Equivalent availability percentages (adjusted to reflect operation at less than full capacity) indicate the percentage of hours the units were available for dispatch at rated load levels, and reflect scheduled and forced outages. The U.S. average for similar units is 84.1%. Lower availability in 2004 and 2006 reflect years in which major inspections were performed.

Equivalent Availability Percentages

Year	GRDA 1[1]	GRDA 2[1]	NERC[2]
2003	91.9%	86.6%	83.6%
2004	75.9%[3]	86.5%	84.9%
2005	87.9%	79.3%	83.4%
2006	87.4%	70.7%[3]	84.5%
2007	92.4%	86.8%	NA

[1] *Percentages provided by GRDA Coal Fired Complex Management.*
[2] *Percentages from NERC website for Coal Primary Units with 400-599MW Nameplate accessed on March 24, 2008 at http://www.nerc.com/~filez/gus.html.*
[3] *Reflects scheduled major maintenance overhauls.*

SOURCE: *The Authority*

The CFC coal supply is through two long term and low cost contracts with divisions of Peabody Energy. Coal is sourced from Peabody's Caballo Mine and Rawhide Mine. These coal sources have proven to be reliable in terms of production rate and quality. These contracts include provisions for periodic adjustment for coal market pricing, and also force majeure. Basic contract terms are as follows:

Supplier	Contract Expiration	Annual Quantity
Peabody Energy	January 1, 2012	1.8 million tons
Peabody Energy	January 1, 2017	1.6 – 2 million tons

On-site coal inventory target is a minimum of 60 days, and this level is selected to minimize risk of production restrictions due to unusual events. Coal needs in excess of contracted amounts are usually obtained by existing contract extension or purchase on spot market.

Transportation of coal is through long term agreements with BNSF Railway that are in place through year 2016. Rates include adjustments for inflation and a fuel surcharge associated with diesel locomotives. This fuel surcharge has become significant in 2008, especially with the recent runup in diesel price, and is currently a 40% adder to the base freight rate.

In the past five years, the delivered cost of coal energy has risen from below $1/million Btu to above $1.50 million/Btu. For 2009, it is expected this rate will rise again to $1.80 million/Btu. The following chart illustrates the energy price trend.

CFC Delivered Cost of Energy
(dollars per million BTU)

Year	Coal
2003	$0.094
2004	$0.096
2005	$0.098
2006	$1.18
2007	$1.21
2008	$1.57 (Est.)*
2009	$1.80 (Est.)*

*Estimated by the Authority.

The GRDA owns five steel unit trains, and leases additional train sets as needed to meet coal delivery needs. Conversion of the steel unit trains to aluminum unit trains is required by year 2012 by contractual agreement with the railroad, and this cost is in the GRDA capital plan.

Transmission

The Authority operates and maintains an integrated electric transmission system ("*ITS*") with KAMO. The ITS includes approximately 2,090 miles of line and related switching stations and transformer substations. This system includes (i) approximately 1288 miles of lines owned by the Authority, (ii) approximately 802 miles of lines owned by KAMO and others that are operated by the Authority, but which are maintained by KAMO and others, and (iii) related switching stations and other transformation substations.

The transmission system lines owned by the Authority are described in the following table:

Voltage (kV)	69	115	138	161	345	Total
Miles	711	40	101	325	111	1,288

The Authority's transmission system is interconnected with the facilities of several neighboring utilities. See "Reliability" below. The Authority's transmission headquarters and related facilities are located near Pryor, on the perimeter of MidAmerica. To reduce service response time, an auxiliary service facility is sited in Cushing, Oklahoma, in the western portion of the Authority's service area.

The Authority jointly owns a 345 kV transmission line with Southwestern Electric Power Co., Empire District Electric Cooperative, Associated Electric Cooperative and City Utilities of Springfield, Missouri. The Authority has elected to participate in regional transmission tariffs as a member of SPP, a reliability council. As a result of this decision, the Authority has shown an increase in transmission revenues.

Routine and preventative maintenance on transmission lines and substations is performed by Authority personnel. Authority personnel also handle all line clearance activities. Aerial surveillance of the transmission lines is used to pinpoint areas which may need attention and crews are then assigned to make repairs. The entire transmission system is flown twice per year and the system is visually inspected by ground patrol on a three-year cycle. These inspections are also performed by Authority personnel.

Reliability

The Authority is a member of SPP. As a Regional Transmission Organization ("*RTO*"), SPP is mandated by FERC to ensure reliable supplies of power, adequate transmission infrastructure, and competitive wholesale prices of electricity. SPP also serves as a Regional Entity of NERC. SPP covers a geographic area of 255,000 square miles and manages transmission in seven states: Arkansas, Kansas, Louisiana, Missouri, New Mexico, Oklahoma, and Texas. SPP has members in the above states and Mississippi. SPP's footprint includes 16 balancing authorities and 40,364 miles of transmission lines. SPP's members serve over 4.5 million customers. SPP's membership consists of 12 investor-owned utilities, 8 municipal systems, 11 generation and transmission cooperatives, 2 state authorities, 4 independent power producers, 11 power marketers, and 2 independent transmission companies.

NERC, of which SPP is a member, was formed by the electric utility industry following the northeast power interruption in late 1965 to promote the reliability of bulk power supplies in the electric utility systems of North America. NERC was certified as the "electric reliability organization" by FERC on July 20, 2006.

NERC's mission is to ensure the reliability of the bulk power system in North America. To achieve that, NERC develops and enforces reliability standards; assesses adequacy annually via 10-year and seasonal forecasts; monitors the bulk power system; evaluates users, owners, and operators users for preparedness; and educates, trains, and certifies industry personnel. NERC is a self-regulatory organization, subject to oversight by the FERC and governmental authorities in Canada.

The Authority is interconnected at locations with seven neighboring utilities which are specified below:

Power Interconnection Points

Company	Number
Associated Electric Cooperative, Inc.	43
Empire District Electric Cooperative	2
Oklahoma Gas & Electric Company	3
American Electric Power[1]	16
Southwestern Power Administration	7
Western Farmers Electric Cooperative	3

[1] Public Service Company of Oklahoma and Southwestern Electric Power Company consolidated with American Electric Power.

Interchange agreements with these utilities provide for coordinated planning and operation through the use of interconnections and, from time to time, the purchase, sale and/or exchange of electric power and energy from one system to the other, emergency service, replacement energy and economy energy and other services. These agreements are generally in effect unless terminated by either party with one year's notice. In addition to providing system reliability, these interconnections enhance opportunities for off system sales.

Consulting Engineer

In the Resolution the Authority covenants to retain a consulting engineer every three years to conduct a physical examination of the System and to report (a "*Triennial Report*") whether the Authority has (i) performed and complied with the covenants set forth in the Resolution with respect to the efficient

management of the System and its business, (ii) maintained, charged and collected sufficient rates, as prescribed by the Resolution, (iii) provided for the proper maintenance of the System, and (iv) made necessary repairs, renewals, replacements and improvements to the System or made provision therefor. The most recent Triennial Report, dated June 27, 2008, was prepared by Guernsey for the period from January 2005 through December 2007.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

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

The Authority is unable to predict what impact such factors will have on its business operations and financial condition, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2008 Bonds should obtain and review such information.

Federal Energy Legislation

The Energy Policy Act of 1992 ("*EPACT 1992*") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections

211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry. As amended by EPACT 1992, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under EPACT 1992, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities that are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213.

The Energy Policy Act of 2005 ("*EPACT 2005*") addresses a wide array of energy matters that could affect the entire electric utility industry, including the electric systems of the Authority. EPACT 2005 provides for mandatory reliability standards to increase system reliability and minimize blackouts, criminal penalties for manipulative energy trading practices and the repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if the Department of Energy has previously designated a national interest transmission corridor covering the proposed lines, and if FERC determines approval has been unreasonably withheld by a state (or states). EPACT 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies, including a new two-year program for tax credit bonds for local government to finance certain renewable energy facilities. The most visible impact of the law has been the development of federal reliability standards.

FERC Regulatory Activity

In 1996, FERC issued its Order 888 significantly changing the regulation of transmission service performed by electric utilities subject to FERC jurisdiction. Among other things, FERC ordered pro forma, open access, non-discriminatory transmission tariffs to be placed into effect for all jurisdictional utilities on or before July, 1996. The goal of Order 888 is to remove impediments to competition in the wholesale bulk power marketplace and to bring more efficient lower cost power to the nation's electricity consumers by denying to a generator of electric energy any unfair advantage over its competitors that exists by virtue of its ownership of its transmission system.

In 1999, FERC issued its Rule 2000 regarding the development of RTOs. Rule 2000 established certain minimum characteristics an RTO must meet and functions an RTO must provide.

Proposed Federal Deregulation Legislation

During the past several sessions of the United States Congress, numerous bills were introduced to restructure the electric utility industry. These bills have contained provisions for consumer choice of electric suppliers and provisions that would impact the federal tax exemption of interest on bonds issued to finance or refinance facilities owned by municipalities and political subdivisions used in the wholesale and retail power supply business (in certain cases, preserving such exemption and, in other cases, negatively impacting such exemption). All of these bills expired without being enacted. The Authority is not able to predict the initiatives that may be proposed, and whether any bills will be enacted into law. Further, the Authority is not able to predict the extent to which any such electric utility restructuring legislation (i) would provide retail customers of investor-owned electric utilities, and possibly customers of consumer owned utilities, including utilities owned by municipalities and other political subdivisions, with some form of ability to choose their supplier of electricity by a date certain, (ii) might (or might not) provide for some form of stranded cost recovery, (iii) may (or may not) provide protection of the Federal

tax exemption of the interest on bonds previously issued by municipalities and other political subdivisions for electric generation, transmission and distribution facilities that are used in wholesale or retail competition, but may prohibit future tax-exempt financing of some or all of such facilities, (iv) may, under certain circumstances, adversely affect the tax exemption of interest on bonds previously issued for such purposes or require payment by utilities owned by municipalities or other political subdivisions of federal income tax on a portion of their utility income, and (v) may contain provisions, among others, relating to customer protection, transmission reliability and access, environmental matters, and the development and or utilization of certain renewable energy resources.

The Authority is not able to predict the final form of any such legislation which might be enacted into law, nor what effect any such new law (if enacted) will have on the Authority or on the exclusion from Federal gross income of interest on indebtedness of the Authority.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the System will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

Climate Change and Possible Future Climate Change Legislation

Public debate over global warming has been fueled by the report released by the U.N. Intergovernmental Panel on Climate Change in September, 2001 (the "*IPCC Report*"), which affirmed the existence of an alleged global warming trend at the end of the 20th and beginning of the 21st centuries. Specifically, the IPCC Report attributed the warming trend to the increasing atmospheric concentration of a number of "greenhouse gases" ("*GHG*"). The accumulation of these GHG in the Earth's atmosphere traps infrared radiation from the sun, preventing its escape, which in turn further warms the earth's surface. The IPCC Report further concluded that the increasing GHG concentrations in the atmosphere were a result of human activities. A very important GHG is carbon dioxide ("*CO2*"). The remainder of this section provides a brief summary of certain actions taken or under consideration prior to the date of this Report regarding GHG.

On April 2, 2007, the U.S. Supreme Court (the "*Court*") issued a landmark decision interpreting the Clean Air Act (the "*CAA*") that will likely impact the planning for new generation capacity. In Massachusetts v. Environmental Protection Agency, 127 S.Ct. 1438 (2007), the Court held in a 5-4 decision that carbon dioxide and certain other GHG emissions are air pollutants and, as such, are subject to regulation under the CAA. The Court concluded that the CAA authorized the Environmental Protection Agency (the "*EPA*") to regulate GHG from new motor vehicles if that agency concludes that such emissions contribute to climate change. The Court remanded the case to the EPA to make a determination as to whether GHG endanger public health. If the EPA concludes that GHG endanger public health, it then must then decide the best course of regulatory action. The Court did not set a timetable for action by the EPA and there are no such deadlines established in the CAA.

Prior to the Court ruling, the issue of climate change had moved to the forefront of the agenda for the 110th Congress and for many state legislatures. Several bills imposing limits on emissions of greenhouse gases have been introduced, but those bills have not become law as of the date of this Report.

Generally, the issues being considered in the alternative bills include, but are not limited to: (i) the appropriate emissions reduction model (e.g., whether to use a carbon tax, a market-based "cap and trade" system, or a regulatory approach such as Best Available Control Technology ("*BACT*"); (ii) the appropriate carbon tax rate or the selected target reductions for a cap and trade or BACT system (e.g., 15% below 2004 level by 2020 vs. 8%); (iii) whether the reductions are applied economy-wide or more narrowly (e.g., to just utilities); (iv) whether emission allowances are auctioned, or allocated, under a cap and trade system; (v) whether allocated allowances should be based on historic emissions or on historic generation output; (vi) whether there should be a mechanism to limit costs (e.g., a CO2 price cap or "off ramp" if the economy suffers); (vii) how offsets should be defined (e.g., terrestrial CO2 sequestration and/or geological sequestration); (viii) the appropriate role for energy efficiency; and (ix) the appropriate treatment for new and existing generation plants.

In addition to proposed legislation addressing CO2 emissions, there have been numerous recent reports prepared by academic, research, and industry organizations that have investigated the effectiveness of emission-reducing technologies and incentives. These studies have also addressed the possible costs of reducing GHG emissions such as CO2, and of carbon capture and storage capabilities at coal-fired electric generation plants and other industrial facilities.

The Authority is unable to predict whether the EPA will impose regulations of GHG, and if so, what their form or effect would be. The Authority is also unable to predict whether any of these bills or any similar federal bills proposed in the future will become law or, if they become law, what their final form or effect would be. At this time, there does not appear to be a consensus as to what the level of future regulation of emissions will be, or the costs associated with that regulation. However, any such costs would likely impact the Authority and the electric market, and could be material.

INDEPENDENT AUDITORS

The statements of net assets of the Authority as of December 31, 2007 and 2006, and the statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended included in this Official Statement as Appendix D, have been audited by Deloitte & Touche LLP, independent auditors, as set forth in their report in Appendix D.

UNDERWRITING

The 2008 Bonds are being purchased for reoffering by the underwriters listed on the cover page hereof (the "*Underwriters*") at an aggregate price of $_____ (which represents the principal amount of the 2008 Bonds less an underwriting discount of $_____, less original issue discount of $_____, plus original issue premium of $_____). The Bond Purchase Agreement between the Underwriters and the Authority provides that the Underwriters will purchase all of the 2008 Bonds if any are purchased. The obligation of the Underwriters to accept delivery of the 2008 Bonds is subject to various conditions contained in the Bond Purchase Agreement.

The Underwriters intend to offer the 2008 Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the 2008 Bonds to the public. The Underwriters may offer and sell 2008 Bonds to certain dealers at prices lower than the public offering price. In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the 2008 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Citigroup Global Markets Inc. is the Representative of the Underwriters.

One of the Underwriters of the 2008 Bonds is BOSC, Inc., A subsidiary of BOK Financial Corp. ("*BOSC*"). BOSC and Bank of Oklahoma, National Association ("*BOK N.A.*") are both wholly-owned subsidiaries of BOK Financial Corp., a bank holding company organized under the laws of the State ("*BOK*"). Thus, BOSC and BOK N.A. are affiliated, but BOSC is not a bank. The 2008 Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation ("*FDIC*"). The 2008 Bonds are investments subject to risk, including possible loss of the principal amount invested. BOK Financial and BOK N.A. are not responsible for the obligations of BOSC. BOK N.A. is the Bond Fund Trustee under the Resolution and the Bond Registrar and Paying Agent for the 2008 Bonds.

LITIGATION

No litigation is pending or, to the knowledge of the Authority, threatened in any court to restrain or enjoin the issuance or delivery of any of the 2008 Bonds or the collection of Revenues pledged or to be pledged to pay the principal of, premium, if any, and interest on the 2008 Bonds or in any way contesting or affecting the validity of the 2008 Bonds or the Resolution or the power to collect and pledge the Revenues to pay the 2008 Bonds, or contesting the powers or authority of the Authority to issue the 2008 Bonds or adopt the Resolution.

LEGALITY FOR INVESTMENT

Pursuant to the provisions of the Act, the 2008 Bonds are securities in which all public officers and public bodies, agencies and instrumentalities of the State and its political subdivisions, all banks, trust companies, trust and loan associations, investment companies, and others carrying on a banking business, and all insurance companies and insurance associations, and others carrying on an insurance business, may legally and properly invest funds including capital in their control or belonging to them. The 2008 Bonds are also approved by the Act as collateral security for the deposit of any public funds and for the investment of trust funds.

TAX MATTERS

Federal Tax Matters — 2008A Bonds

General. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2008A Bonds (hereinafter in this section referred to as the "*Federally Tax-Exempt Bonds*") is excludable from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "*Code*"), and (ii) interest on the Federally Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Federally Tax-Exempt Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Federally Tax-Exempt Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal tax consequences with respect to the Federally Tax-Exempt Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to

reflect any further action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Federally Tax-Exempt Bonds, or under state and local tax law.

For the proposed form of opinion of Bond Counsel, see Appendix E hereto.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Federally Tax-Exempt Bonds in order that interest on the Federally Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Federally Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Federally Tax-Exempt Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Federally Tax-Exempt Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral Federal income tax matters with respect to the Federally Tax-Exempt Bonds. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of a Federally Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Federally Tax-Exempt Bonds.

Prospective owners of the Federally Tax-Exempt Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Federally Tax-Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount. "Original issue discount" ("*OID*") is the excess of the sum of all amounts payable at the stated maturity of a Federally Tax-Exempt Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Federally Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of the Federally Tax-Exempt Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Federally Tax-Exempt Bonds having OID (a "*Discount Bond*"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Federally Tax-Exempt Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium. In general, if an owner acquires a Federally Tax-Exempt Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Federally Tax-Exempt Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Federally Tax-Exempt Bond (a "*Premium Bond*"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest paid on tax-exempt obligations, including the Federally Tax-Exempt Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Federally Tax-Exempt Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Federally Tax-Exempt Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against

the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Federal Tax Matters — 2008B Bonds

General. The following discussion is a summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of 2008B Bonds (hereinafter in this section referred to as the "*Federally Taxable Bonds*") by original purchasers of the Federally Taxable Bonds who are U.S. Holders (as defined below). This summary is based on the Code, Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Federally Taxable Bonds will be held as "capital assets" under the Code, and it does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Federally Taxable Bonds as a position in a "hedge" or "straddle" for United States Federal income tax purposes, or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar. Each prospective purchaser of the Federally Taxable Bonds should consult with its own tax advisor concerning the United States Federal income tax and other tax consequences to it of the acquisition, ownership and disposition of the Federally Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Taxable Bond that is for United States Federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

U.S. Holders - Interest Income. Interest on the Federally Taxable Bonds is includable in gross income for United States Federal income tax purposes.

U.S. Holders - Original Issue Discount. For United States Federal income tax purposes, a Federally Taxable Bond will be treated as issued with original issue discount ("*OID*") if the excess of a Federally Taxable Bond's "stated redemption price at maturity" over its "issue price" equals or exceeds a statutorily determined *de minimis* amount. The "issue price" of each Federally Taxable Bond in a particular issue equals the first price at which a substantial amount of such issue is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Federally Taxable Bond is the sum of all payments provided by such Federally Taxable Bond other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. In general, if the excess of a Federally Taxable Bond's stated redemption price at maturity over its issue price is less than .25 percent of the Federally Taxable Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (the "*de minimis amount*"), then such excess, if any, constitutes *de minimis* OID, and the Federally Taxable Bond is not treated as being issued with OID and all payments of stated interest (including stated interest that would otherwise be characterized as OID) is treated as qualified stated interest, as described below.

Payments of qualified stated interest on a Federally Taxable Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the

U.S. Holder's regular method of tax accounting. A U.S. Holder of a Federally Taxable Bond having a maturity of more than one year from its date of issue generally must include OID in income as ordinary interest as it accrues on a constant-yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. The amount of OID included in income by the U.S. Holder of a Federally Taxable Bond is the sum of the daily portions of OID with respect to such Federally Taxable Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Federally Taxable Bond. The daily portion of OID on any Federally Taxable Bond is determined by allocating to each day in any "accrual period" a ratable portion of the OID allocable to the accrual period. All accrual periods with respect to a Federally Taxable Bond may be of any length and the accrual periods may vary in length over the term of the Federally Taxable Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. The amount of OID allocable to an accrual period is generally equal to the difference between (i) the product of the Federally Taxable Bond's "adjusted issue price" at the beginning of such accrual period and such Federally Taxable Bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Federally Taxable Bond at the beginning of any accrual period is the issue price of the Federally Taxable Bond plus the amount of accrued OID includable in income for all prior accrual periods minus the amount of any prior payments on the Federally Taxable Bond other than qualified stated interest payments. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the Federally Taxable Bond (other than a payment of qualified stated interest) and (ii) the Federally Taxable Bond's adjusted issue price as of the beginning of the final accrual period. Under the OID rules, U.S. Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may elect to include in gross income all interest that accrues on a Federally Taxable Bond using the constant-yield method described above under the heading "Original Issue Discount," with the modifications described below. For purposes of this election, interest includes, among other things, stated interest, OID and *de minimis* OID, as adjusted by any amortizable bond premium described below under the heading "Bond Premium". In applying the constant-yield method to a Federally Taxable Bond with respect to which this election has been made, the issue price of the Federally Taxable Bond will equal its cost to the electing U.S. Holder, the issue date of the Federally Taxable Bond will be the date of its acquisition by the electing U.S. Holder, and no payments on the Federally Taxable Bond will be treated as payments of qualified stated interest. The election will generally apply only to the Federally Taxable Bond with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service. If this election is made with respect to a Federally Taxable Bond with amortizable bond premium, then the electing U.S. Holder will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludable from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Federally Taxable Bond with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the Internal Revenue Service.

U.S. Holders of any Federally Taxable Bonds issued with OID should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Federally Taxable Bonds.

U.S. Holders - Bond Premium. In general, if a U.S. Holder acquires a Federally Taxable Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Federally Taxable Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Federally Taxable Bond (a "*Taxable Premium Bond*"). In general, under Section 171 of the Code, a U.S. Holder of a Taxable Premium Bond may either deduct the amortizable bond premium for a taxable year under Section 171(a)(1) of the Code or may elect to amortize the total bond premium over the remaining term of the Taxable Premium Bond, based on the U.S. Holder's yield over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond). Any such election applies to all debt instruments of the U.S. Holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired, and is irrevocable without the Internal Revenue Service's consent. A U.S. Holder of a Taxable Premium Bond that so elects to amortize bond premium does so by offsetting the qualified stated interest allocable to each interest accrual period under the U.S. Holder's regular method of Federal tax accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is treated as a bond premium deduction under Section 171(a)(1) of the Code, subject to certain limitations. If a Taxable Premium Bond is optionally callable before maturity at a price in excess of its stated redemption price at maturity, special rules may apply with respect to the amortization of bond premium. Under certain circumstances, the U.S. Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the U.S. Holder's original acquisition cost.

U.S. Holders of any Taxable Premium Bonds should consult their own tax advisors with respect to the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Taxable Premium Bonds.

U.S. Holders - Disposition of Federally Taxable Bonds. Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Federally Taxable Bond, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder's adjusted tax basis in the Federally Taxable Bond. A U.S. Holder's adjusted tax basis in a Federally Taxable Bond generally will equal such U.S. Holder's initial investment in the Taxable Bond, decreased by the amount of any payments, other than qualified stated interest payments, received with respect to such Federally Taxable Bond. Such gain or loss generally will be long-term capital gain or loss if the Federally Taxable Bond was held for more than one year.

U.S. Holders - Defeasance. U.S. Holders of the Federally Taxable Bonds should be aware that, for Federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Federally Taxable Bonds to be deemed to be no longer outstanding under the resolution of the Federally Taxable Bonds (a "*defeasance*"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for Federal income tax purposes, the character and timing of receipt of payments on the Federally Taxable Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Federally Taxable Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for Federal income tax purposes, and for state and local tax purposes.

U.S. Holders — Information Reporting and Backup Withholding. In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the proceeds of the sale of a Federally Taxable Bond before maturity within the United States. Backup withholding at a rate of 28% for the years 2008-2010 and at a rate of 31% for the year 2011 and thereafter, will apply to such payments unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States Federal income tax returns.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

IRS Circular 230 Disclosure. The advice under the caption "Federal Tax Matters — 2008B Bonds," concerning certain income tax consequences of the acquisition, ownership and disposition of the Federally Taxable Bonds, was written to support the marketing of the Federally Taxable Bonds. To ensure compliance with the requirements imposed by the Internal Revenue Service, each prospective purchaser of Federally Taxable Bonds is advised that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel (including opinions of Bond Counsel, proposed forms of which are contained in Appendix E) is not intended to be used, and cannot be used, by any holder of a Federally Taxable Bond for the purpose of avoiding penalties that may be imposed on the holder under the Code, and (ii) the holder should seek advice based on the holder's particular circumstances from an independent tax advisor.

State Tax Matters

In the opinion of Bond Counsel to the Authority, under the Act, the 2008 Bonds (both Federally Tax-Exempt Bonds and Federally Taxable Bonds) and the interest thereon are exempt from taxation, except inheritance taxes, by the State or by any municipal corporation, county or other political subdivision or taxing district of said State.

Bond Counsel's opinion is issued as of the date of delivery of the 2008 Bonds, and Bond Counsel assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may thereafter arise or occur, or for any other reason. Furthermore, Bond Counsel expresses no opinion as to the effect of any action taken or not taken in reliance upon an opinion of counsel, other than themselves, under state and local tax laws.

For the proposed form of opinion of Bond Counsel, see Appendix E hereto.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2008 Bonds under Federal or state law and could affect the market price or marketability of the 2008 Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

CERTAIN LEGAL MATTERS

All of the legal proceedings in connection with the authorization and issuance of the 2008 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. Certain legal matters in connection with the 2008 Bonds are subject to the approval of Gretchen Zumwalt-Smith, Esq., General Counsel to the Authority and an approving certificate of the Attorney General of Oklahoma. Certain matters will be passed upon for the Underwriters by Crowe & Dunlevy, A Professional Corporation, and Phillips McFall McCaffrey McVay & Murrah P.C., co-counsel to the Underwriters.

RATINGS

Moody's has assigned the 2008A Bonds an unenhanced, underlying rating of A2 and the 2008B Bonds an unenhanced, underlying rating of MIG-1. S&P has assigned an unenhanced, underlying rating of A to the 2008 Bonds. Fitch has assigned an unenhanced, underlying rating of A to the 2008 Bonds, and has also assigned an unenhanced, underlying rating of F-1 to the 2008B Bonds. [In addition, it is expected that the 2008 Bonds will be assigned ratings of ["___" by Moody's], ["___" by S&P], and ["___" by Fitch] based on the expected issuance by the Bond Insurer of the Policy simultaneously with the issuance of the 2008 Bonds.] There is no assurance that any rating will be maintained for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, S&P or Fitch if, in its judgment, circumstances so warrant. The Authority undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings or other actions by a rating agency may have an adverse effect on the market price of the 2008 Bonds.

[Each of Moody's, S&P and Fitch (collectively referred to hereinafter as the "*Rating Agencies*") has recently released statements on the potential effects of downturns in the market for structured finance instruments, including collateralized debt obligations and residential mortgage backed securities, on the claims-paying ability of the bond insurance companies, including the Bond Insurer. See "BOND INSURANCE". In various releases, the Rating Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a ratings affirmation, a change in rating outlook, a review for downgrade, or a downgrade. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors, including the Bond Insurer.]

UNDERTAKING TO PROVIDE ONGOING DISCLOSURE

The Authority will execute and deliver a Continuing Disclosure Agreement (the "*Undertaking*") for the benefit of owners and beneficial owners of the 2008 Bonds and to assist the Underwriters in complying with the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12, 17 C.F.R. Part 240, § 240.15c2-12 (the "*Rule*"). The Authority has complied in all material respects with all continuing disclosure undertakings made by it in accordance with the Rule. A Summary of Certain Provisions of the Continuing Disclosure Agreement is attached as Appendix F hereto.

AVAILABLE INFORMATION

The descriptions included in this Official Statement of the 2008 Bonds, the Resolution [and the Policy,] and certain other agreements described herein do not purport to be complete and are qualified in their entirety by reference to each such document, copies of which may be obtained during the initial offering period for the 2008 Bonds upon written request from the Authority at the address on the inside front cover hereof, Attention: Chief Financial Officer.

The execution and delivery of this Official Statement have been duly authorized by the Authority.

GRAND RIVER DAM AUTHORITY

By: _____
Chief Executive Officer

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL BOND RESOLUTION

The following is a general summary of certain provisions of the General Bond Resolution, Resolution No. 4800, adopted by the Board of Directors of the Authority on March 6, 1987. This summary is not considered to be a full statement of the terms of the General Bond Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. A copy of the General Bond Resolution may be obtained from the Authority on request. Capitalized terms not defined herein or elsewhere in this Official Statement have the respective meanings set forth in the General Bond Resolution.

Proposed Amendment to General Bond Resolution

For a description of a proposed amendment to the General Bond Resolution, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Proposed Amendment to General Bond Resolution" and Appendix C in this Official Statement.

Certain Definitions

"*Accrued Aggregate Bond Service*" means, as of any date of calculation, the sum of the amounts of Bond Service that have accrued with respect to all Series of Bonds, calculating the Bond Service that has accrued with respect to each Series of Bonds as an amount equal to the sum of (i) the interest on the Bonds of such Series that has accrued and is unpaid and that will have accrued by the end of the then current calendar month, and (ii) that portion of the next due Principal Installment for the Bonds of such Series that would have accrued (if deemed to accrue in the manner set forth in the definition of "Bond Service") by the end of the then current calendar month.

"*Aggregate Bond Service*" means, as of any date of calculation and with respect to any period, the sum of the amounts of Bond Service for all Series of Bonds for such period.

"*Bond Service*" means, as of any date of calculation and with respect to any period for any Series of Bonds, an amount equal to the sum of (i) the interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from (w) amounts then on deposit in the Construction Interest Account in the Construction Fund, (x) amounts then on deposit in the Bond Service Account, (y) amounts then on deposit in an Escrow Fund, or (z) any other provisions made for the payment of interest, and (ii) that portion of each Principal Installment for the Bonds of such Series that would have accrued during such period if each such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding principal installment due date, then from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever is later). Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof. The interest rate on Variable Rate Bonds shall be determined: (a) with respect to a Series of Variable Rate Bonds at the time of calculation then Outstanding, the interest rate shall be the higher of (1) the weighted average interest rate per annum borne by such issue of Variable Rate Bonds for the twelve month period then ended at the time of calculation, or (2) the weighted average interest rate per annum on such issue of Variable Rate Bonds (computed on an actual day basis) for the three most recently completed calendar months, and (b) with respect to Variable Rate Bonds then proposed to be issued, the interest rate shall be assumed to be the Certified Interest Rate. For all purposes of calculating the Bond Service Reserve Requirement and the

amount required to be deposited in the Reserve and Contingency Fund under the Resolution, Bond Service shall not include Bond Service on Bonds to the extent principal of and interest on such Bonds are secured by and payable from amounts on deposit in an Escrow Fund.

"*Bond Service Reserve Requirement*" means, as of the date of calculation, an amount equal to Maximum Aggregate Bond Service; provided, further, however, in no event shall such amount with respect to a Series initially deposited from the proceeds of Bonds, together with the amount of proceeds of such Series of Bonds deposited in the Reserve and Contingency Fund, exceed 10% of the proceeds of such Series or such greater amount as set forth in a Supplemental Resolution upon receipt by the Bond Fund Trustee of an opinion of nationally recognized counsel with particular expertise in tax matters pertaining to the treatment of interest on governmental obligations for federal income tax purposes; provided, further, however, that the interest rate on Variable Rate Bonds shall be (a) calculated at the Certified Interest Rate, or (b) upon receipt by the Bond Fund Trustee of an opinion of nationally recognized counsel with particular expertise in tax matters pertaining to the treatment of interest on governmental obligations for federal tax purposes that the use thereof would not cause the interest on the Variable Rate Bonds to be subject to Federal income taxation, determined on the basis of the rate or rates of interest actually payable on such Variable Rate Bonds.

"*Bond Year*" means with respect to any Series of Bonds, any period of 12 consecutive months terminating on the due date of a Principal Installment for the Bonds of such Series.

"*Bondholder or Holder of Bonds*", or any similar term, means any person who shall be the registered owner of any Bond.

"*Calendar Year*" means the period commencing on January 1 of each year and terminating on the next succeeding December 31.

"*Certified Interest Rate*" means with respect to any Series of Variable Rate Bonds the long-term rate of interest as certified by the Authority at the time of issuance thereof; provided that in no event shall a Certified Interest Rate be less than 75% of the average coupon rate of all Bonds (other than Variable Rate Bonds) Outstanding at the time of issuance of a Series of Variable Rate Bonds.

"*Cost of Construction*" means, with respect to any Project, the Authority's cost properly attributable to the acquisition, construction and equipping thereof, and costs of placing same in operation, including but not limited to the cost of acquisition by or for the Authority of real or personal property or any interest therein, costs of physical construction, purchasing and installing the necessary equipment for the operation of any Project, and costs of the Authority incidental to such acquisition, construction and equipping, the cost of acquisition and transportation of fuel supply and any reserves, interest during construction, the cost of any indemnity, performance, payment, maintenance and surety bonds and premiums on insurance during construction, engineering fees and expenses, legal fees and expenses, costs of audits, fees and expenses of the Fiduciaries and costs of training, testing, financing, administrative and general overhead and keeping accounts and making reports required by the Resolution prior to the date of commercial operation of such Project, amounts, if any, required by the Resolution to be paid into the Construction Fund, to be remitted into the Construction Interest Account, Bond Service Reserve Account, Reserve and Contingency Fund or any other reserve funds created under the Resolution or a Supplemental Resolution upon the issuance of any Series of Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) of any indebtedness of the Authority (other than the Bonds) incurred for such Project, costs of machinery, equipment and supplies and costs required for the commencement of operation of such Project, and other expenses relating to any Project referred to in clause (x) of the definition of "Project", and shall include reimbursement to the Authority for any such

items of Cost of Construction therefor paid by or on behalf of the Authority, prior to the issuance of Bonds.

"*Escrow Fund*" means any escrow fund established pursuant to a Supplemental Resolution in connection with a Series of Additional Bonds which serves as a repository for the proceeds of, and provides the security and sufficient source of payment (as verified by an independent public accountant) of principal of and interest on, such Series of Additional Bonds pending disbursement in accordance with the terms of such Supplemental Resolution.

"*Estimated Net Revenues*" means for any Calendar Year, the estimated Revenues for such Calendar Year less the estimated Maintenance and Operation Costs for such Year.

"*Investment Securities*" may include any of the following securities, if and to the extent the same are at the time legal under Oklahoma law for investment of Authority funds:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (ii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any bonds or other obligations of the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Financing Bank, the Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Association;

(iii) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under contracts with the United States of America; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(iv) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under the Resolution such obligations are rated in either of the two highest major rating categories by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Corporation ("S&P");

(v) savings certificates or certificates of deposit, whether negotiable or non-negotiable, issued by any savings and loan association organized under applicable state or federal law, provided such deposits shall be continuously and fully secured by the Federal Savings and Loan Insurance Corporation;

(vi) repurchase agreements with banks which are members of the Federal Deposit Insurance Corporation, and government bond dealers recognized as primary dealers by the Federal Reserve Bank of New York, secured by securities which are obligations described in items (i) through (iii), inclusive, provided that each such repurchase agreement (A) is in commercially reasonable form and is for a commercially reasonable period, and (B) results in transfer to the Bond Fund Trustee or the Authority of legal title to, or the grant to the Bond Fund Trustee or the Authority of a prior perfected security interest in, identified securities referred to in (i) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the Repurchaser) as the agent solely of, or in trust solely for the benefit of, the Bond Fund Trustee or the Authority; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then

current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement;

(vii) certificates of deposits, whether negotiable or non-negotiable, issued by any bank or trust company organized under the laws of the State, or any other state, or national banking association and not collateralized by securities described above in clauses (i) through (iv), inclusive, provided that not more than ten percent (10%) of all available funds and accounts of the Authority shall be so invested whether held by the Authority or the Construction Fund Trustee, excluding the Bond Fund; provided, further, that: (1) in the event the issuing bank, trust company or national banking association maintains its principal place of business within the State, then the amount of certificates purchased from such bank, trust company or national banking association may not exceed, in aggregate amount, fifteen percent (15%) of the capital and surplus of the issuing bank, trust company or national banking association; or (2) in the event the issuing bank, trust company or national banking association does not maintain its principal place of business (nor any place of business) within the State, then the amount of certificates purchased from any one such bank or trust company, or national banking association may not exceed, in aggregate amount ten percent (10%) of the capital and surplus of such bank or trust company or national banking association; provided, further, that certificates purchased from any one issuer under (1) or (2) above shall not exceed twenty-five percent (25%) of the allowable ten percent (10%) of the funds and accounts of the Authority available for the purchase of Investment Securities;

(viii) certificates of deposits issued by any bank or trust company organized under the laws of the State, or any other state, or any national banking association in any amount; provided that such certificates shall be either: (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities as are described above in clauses (i) through (iii), inclusive, which shall have a market value (not including accrued interest) at all times at least equal to the principal amount of such certificates and shall be lodged with the Authority or the trustee responsible for the derivative fund invested, as custodian, by the bank, trust company or national banking association issuing such certificates, and the bank, trust company or national banking association issuing each such certificate required to be so secured shall furnish the Authority, the Construction Fund Trustee or the Bond Fund Trustee with either the securities pledged to the security thereof or a joint custody receipt evidencing the securities pledged thereunder, or (3) in the event any bank, trust company or national banking association has advanced funds to the Authority through the purchase of a bond anticipation note, or any participation therein, such bond anticipation note, or participation therein, may be used as security up to the principal amount thereof, provided the Authority shall obtain an accompanying right of set-off of such obligation, against the resulting deposit;

(ix) investment agreements with companies or banks whose senior debt obligations are rated no lower than the second highest rating category given by Moody's and S&P at the time of the execution and delivery of such agreement;

(x) short term obligations by or on behalf of any state of the United States of America or political subdivision thereof provided at the time of their purchase under the Resolution such obligations are rated in the highest short-term category by Moody's and S&P; and

(xi) any cash sweep or similar account arrangement of the Bond Fund Trustee the investments of which are limited to investments described in clause (i), (ii) or (iii) and any money market fund the entire investments of which are limited to investments described in clause (i), (ii) or (iii).

"*Maintenance and Operation Costs*" means all actual maintenance and operation costs of the System incurred by the Authority in any particular Calendar Year or period to which said term is applicable or charges made therefor during such Calendar Year or period, including amounts reasonably

required to be set aside in the Reserve and Contingency Fund as reserves for items of Maintenance and Operation Costs the payment of which is not then immediately required.

Such Maintenance and Operation Costs include, but are not limited to, expenses for ordinary repairs, renewals and replacements of the System, salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses, insurance expenses (legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting and technical services not funded from proceeds of Bonds), taxes, payments in lieu of taxes and other governmental charges, fuel costs, including the acquisition and transportation of any and all fuels, costs of purchased power and transmission service, and any other current expenses or obligations required to be paid by the Authority under the provisions of the Resolution or by law, all to the extent properly allocable to the System, and the fees and expenses of the Fiduciaries. In addition, all expenses in connection with the purchase or redemption of Bonds shall be paid by the Authority as Maintenance and Operation Costs.

Such Maintenance and Operation Costs do not include depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the Authority, costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to or retirements from the System which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System nor such property items, including taxes and fuel, which are capitalized pursuant to the then existing accounting practice of the Authority.

"*Maximum Aggregate Bond Service*" means, as of any date of calculation, the greatest Aggregate Bond Service for all Bonds Outstanding as computed for any Bond Year.

"*Net Revenues*" means, for any period, the Revenues during such period less the Maintenance and Operation Costs during such period.

"*Outstanding*" means, as of any date of calculation, all Bonds theretofore executed, issued and delivered by the Authority and authenticated by the Bond Fund Trustee or an authenticating agent under the Resolution except:

(a) Bonds theretofore canceled by the Bond Fund Trustee or surrendered to the Bond Fund Trustee or an authenticating agent for cancellation;

(b) Bonds in lieu of, or in exchange for which, other Bonds shall have been executed, issued and delivered by the Authority and authenticated by the Bond Fund Trustee or an authenticating agent pursuant to the Resolution, unless proof satisfactory to the Bond Fund Trustee is presented that any such Bonds are not held by bona fide holders in due course or in accordance with the Resolution;

(c) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, irrevocable notice of such redemption shall have been given or provision made therefor as provided in the Resolution; and

(d) Bonds deemed to have been paid or defeased as provided in the Resolution.

For purposes of the Resolution, in the event any Bonds are issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount, the amount of such Bonds deemed to be Outstanding for the purpose of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or direction or taking of any other action that the Holders of the Bonds are entitled to take or the determination of principal amounts payable to and the delivery of notices or requests by Bondholders upon an Event of Default pursuant to the Resolution, shall be accreted value thereof. The accreted value of any such Bond on any date shall be the present value thereof on the immediately preceding Interest Payment Date (or if such date is an Interest Payment Date, on such date) determined by computing the present worth of all payments of principal and interest remaining to be paid thereon using a discount factor equal to the yield at which such Bonds were initially offered to the public. Prior to the issuance and delivery of any Bonds described in this paragraph, there shall be filed with the Bond Fund Trustee a certificate of the Authority setting forth the accreted value thereof as of each Interest Payment Date to the stated maturity date thereof, which certificate, if approved by the Bond Fund Trustee, shall be conclusive.

"*Principal Installment*" means, as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding: (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installment due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to such unsatisfied balance of such Sinking Fund Installment, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of such Sinking Fund Installment due on such future date plus such applicable redemption premiums, if any, except to the extent any such Principal Installments are to be paid from an Escrow Fund.

"*Project*" shall mean one or more of the following: (i) a power generating facility to be constructed by the Authority or an existing generating facility or system to be otherwise acquired by the Authority, in each case including related transmission, transportation and transformation facilities and fuel supplies and any facilities or equipment necessary or incidental thereto; (ii) any power generating facility added to an existing power generating facility of the Authority, including related transmission, transportation and transformation facilities and fuel supplies and any facilities or equipment necessary or incidental thereto; (iii) any proportionate interest in a power generating facility, including related transmission, transportation and transformation facilities, to be constructed or otherwise acquired jointly, as a tenant in common or otherwise, by any cooperative arrangement, with any other agency of government, rural electric cooperative corporation, or any private or public corporation; (iv) any transmission or transformation facility to be constructed or otherwise acquired by the Authority or where the Authority will acquire a proportionate interest in a transmission or transformation facility to be constructed or otherwise acquired by the Authority; (v) any purchase, assignment or vestment of rights to receive a power supply or transmission capacity; (vi) any mine, well, pipeline, pipeline connection, transportation facility, dock, wharf, trackage, rolling, stock, plant, structure or other facility for the development, acquisition, production, manufacture, storage, fabrication or processing of all fuel or fuels, including but not limited to fossil, hydro, solar, thermal, geo-thermal or nuclear fuel of any kind or any facility, in each case for use, in whole or in major part, in the Authority's generating plant or plants, or where the Authority will acquire a proportionate interest in any of the foregoing to be constructed or otherwise acquired by a cooperative arrangement; (vii) any additions, repairs, renewals, replacements, expansions, betterments, modifications, capital additions or improvements of the System; (viii) preliminary and developmental work, including engineering, legal and financial studies, in connection

with the planning and development of power resources and in the determination of the feasibility thereof; (ix) the payment or refunding by exchange, or otherwise, of all or a portion of the Authority's outstanding indebtedness; (x) the funding of pension or retirement plans of the Authority or legal judgments against the Authority; or any one or more of the foregoing, or any combination thereof; in each of the foregoing cases, together with all rights interest and facilities of every kind related or incidental thereto or necessary or desirable to carry out such Project; in each of the foregoing cases, however, only if and to the extent that the same shall be designated by the Authority as a Project in a Supplemental Resolution authorizing the issuance of Bonds for such Project in accordance with the Resolution.

"*Revenues*" means all revenues, income, rents and receipts derived by the Authority from or attributable to the ownership and operation of the System, including all revenues attributable to the System received by the Authority under the contracts between the Authority and its power purchasers or under any other contract or agreement for the sale or interchange of power or other services from the System or any lease or other contractual arrangement with respect to the use of the facilities of the System or the services, output or capacity thereof or from the sale of any property of the System permitted under the Resolution and the proceeds of any insurance covering business interruption loss relating to the System, all as determined in accordance with generally accepted accounting principles. "Revenues" also includes all interest, profits, or other income derived from the investment of any moneys held pursuant to the Resolution and required to be paid into the Revenue Fund "Revenues" shall not include amounts on deposit in the Rebate Fund, investment earnings on Escrow Funds or the proceeds of separate utility system obligations or contract revenue bonds or payments under a Support Facility.

"*System*" means the entire electric power and energy system of the Authority, including all steam, air and water facilities, and all the existing and hereafter acquired electric production, transmission, distribution and general plant and related facilities of the Authority, any Project, and all the electric production, transmission, distribution and general plant facilities and fuel acquisition and transportation facilities owned or hereafter acquired by lease, contract, purchase, gift or otherwise or constructed by the Authority, any Project, including any interest or participation of the Authority, either as a tenant in common or by any other cooperative arrangement, in any such electric power and energy facilities and all Projects acquired through the issuance of Additional Bonds, or otherwise, together with all additions, betterments, extensions and improvements to said electric power and energy system (including steam, air and water or any part thereof hereafter made) and together with all lands, waters, easements, rights and rights of way of the Authority and all other works, property or structures of the Authority and contract rights and other tangible and intangible assets of the Authority used or useful in connection with or related to said electric power and energy system, as financed or refinanced with the proceeds of Bonds. "System" shall not include any separate utility system of the Authority.

"*Value of Investment Securities*" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are reasonable at the option of the Holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par, means the purchase price of such security and when used with respect to a security purchased at a premium above or discount below par, means as of any subsequent date of valuation, the value obtained by dividing the total premium or discount by the number of interest payment dates remaining to maturity on any such security after such purchase and by multiplying the amount as calculated by the number of interest payment dates having passed since the date of purchase and (i) in the case of a security purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of a security purchased at a discount, by adding the product thus obtained to the purchase price.

"*Variable Rate Bonds*" means Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to their terms, based on an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For purposes of this definition, Variable Rate Bonds shall no longer be considered Variable Rate Bonds upon the establishment of, or the conversion of the rate of interest thereon to, a fixed interest rate for the remainder of the term thereof.

Pledge

Payment of the principal of, premium, if any, and interest on the Bonds, including the 1987 Bonds, is secured, subject to application in accordance with the Resolution, by a pledge of and first lien on (i) the proceeds of sale of the Bonds, except proceeds of a Series of Bonds on deposit in an Escrow Fund which shall be pledged as set forth in the Supplemental Resolution providing for the issuance thereof, (ii) the Revenues, and (iii) all funds and accounts (other than an Escrow Fund or the Rebate Fund) established by the Resolution, including the income derived from the investment thereof, if any. See also "Security and Sources of Payment for the Bonds)."

Funds and Accounts

The Resolution establishes the following funds and accounts:

	Funds and Accounts	Held By
(1)	Construction Fund (a) Project Account(s) (b) Construction Interest Account(s) (if required)	Construction Fund Trustee
(2)	Revenue Fund	Authority
(3)	Bond Fund (a) Bond Service Account (b) Bond Service Reserve Account	Bond Fund Trustee
(4)	Reserve and Contingency Fund	Authority
(5)	General Fund	Authority
(6)	Rebate Fund	Bond Fund Trustee

All Revenues shall be promptly deposited by the Authority to the credit of the Revenue Fund. Amounts in the Revenue Fund are to be paid to other funds and accounts established by the Resolution in the following order of priority for application therefrom, as follows:

1. To the Bond Service Account and the Bond Service Reserve Account in the Bond Fund, the respective amounts, if any, required so that the balances therein equal the Accrued Aggregate Bond Service and the Bond Service Reserve Requirement, respectively. There are also paid into the Bond Service Account the accrued interest on any Series of Bonds received on the date of delivery thereof as well as amounts in respect of the payment of interest payable from the applicable Construction Interest Account. The Bond Fund Trustee applies amounts in the Bond Service Account to the payment of principal of and interest on the Bonds.

There shall be credited against amounts to be paid from the Revenue Fund to the Bond Service Account the amount transferred from the Construction Interest Account to the Bond Service Account and any other amounts in the Bond Service Account derived from the proceeds of Bonds for the payment of interest on Bonds as provided in a Supplemental Resolution.

Certain amounts accumulated in the Bond Service Account with respect to any Sinking Fund Installment may, and, if so directed by the Authority, shall, be applied to the purchase (or redemption, if permitted by the terms of such Bonds) of Bonds to satisfy sinking fund requirements prior to the due date of such Sinking Fund Installment.

Amounts in the Bond Service Reserve Account are to be applied to make up any deficiency in the Bond Service Account. Whenever the amount in the Bond Service Reserve Account, together with the amount in the Bond Service Account, is sufficient to pay in full all Outstanding Bonds in accordance with their terms, the funds on deposit in the Bond Service Reserve Account shall be transferred to the Bond Service Account, and no deposits shall be required to be made into the Bond Service Reserve Account. Whenever moneys on deposit in the Bond Service Reserve Account exceed the Bond Service Reserve Requirement, the excess may be transferred by the Bond Fund Trustee to the Authority to be allocated and applied by the Authority in the same manner as excess money in the Revenue Fund pursuant to the Resolution.

The Authority is required to calculate the Bond Service Reserve Requirement (i) upon the issuance of any Series of Bonds other than Variable Rate Bonds, (ii) with respect to a Series of Variable Rate Bonds the principal of and interest on which are secured by and payable from an Escrow Fund (a) if any portion of such proceeds of such Series of Bonds to be deposited in an Escrow Fund will ultimately be disbursed to the Bond Service Reserve Account, upon the issuance of such Series of Bonds, or (b) otherwise, at the time principal of and interest on any Bonds of such Series are no longer secured by or payable from an Escrow Fund, and (iii) at the time any Variable Rate Bonds of a Series cease to be Variable Rate Bonds, and may recalculate such Bond Service Reserve Requirement at any other time. If at any time the Authority is required to recalculate the Bond Service Reserve Requirement pursuant to clause (iii) above and such requirement is lower than the currently existing Bond Service Reserve Requirement, the Authority may, at its option, maintain such requirement at the then current Bond Service Reserve Requirement. In the event of the issuance of a Series of Bonds, unless upon the delivery of such Bonds there shall then already be on deposit moneys and the Value of Investment Securities in the Bond Service Reserve Account an amount equal to the total of the Bond Service Reserve Requirement for all Series of Bonds to be Outstanding upon the issuance of such Series of Bonds, the Authority may deposit such requirement from Bond proceeds or accumulate such amount from Revenues over a 60 month period. The aggregate amount of proceeds of a Series of Bonds which may be deposited in the Bond Service Reserve Account and the Reserve and Contingency Fund is limited to 10% of the proceeds of a Series, or such greater amount as set forth in a Supplemental Resolution upon receipt by the Bond Fund Trustee of an opinion of nationally recognized counsel with particular expertise in tax matters pertaining to the treatment of interest in governmental obligations for federal tax purposes. Any deficiencies in the Bond Service Reserve Account to the extent not remedied by transfers from the Reserve and Contingency Fund or the General Fund shall be accumulated from Revenues over a 36 month period.

When a Series of Bonds is refunded in whole or in part or is otherwise paid so that all of the Bonds of such Series are no longer Outstanding, moneys may be withdrawn from the Bond Service Reserve Account to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Bonds issued to refund such refunded Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Bond Service Reserve Account an amount equal to the Bond Service Reserve Requirement.

In lieu of the deposit of moneys into the Bond Fund for credit to the Bond Service Reserve Account, the Authority may obtain a surety bond or an insurance policy payable to the Bond Fund Trustee for the benefit of the Holders of the Bonds or a letter of credit in an amount equal to the difference between the Bond Service Reserve Account Requirement and the amounts then on deposit in the Bond Fund for credit to the Bond Service Reserve Account.

2. All reasonable and necessary Maintenance and Operation Costs of the Authority shall be paid from the Revenue Fund or from the Reserve and Contingency Fund as they become due and payable after the required transfers from the Revenue Fund to the Bond Fund but prior to payments to other funds and accounts.

3. To the Reserve and Contingency Fund, the amount necessary to be deposited therein. The Authority is required to calculate the amount required to be deposited into the Reserve and Contingency Fund at the same time and in the same manner as the Bond Service Reserve Requirement. The amount in the Reserve and Contingency Fund is required to be at least equal to 0.25 times Maximum Aggregate Bond Service for all Bonds then Outstanding (including Series of Bonds then being issued, if any) at the time of calculation thereof or such greater amount as may be specified in a Supplemental Resolution of the Authority. In the event of the issuance of a Series of Bonds, unless upon the delivery of such Bonds there shall then already be on deposit moneys and the Value of Investment Securities in the Reserve and Contingency Fund the amount required to be deposited therein, the Authority may deposit such requirement from Bond proceeds or accumulate such amount from Revenues over a 60 month period. The aggregate amount of proceeds of a Series of Bonds which may be deposited in the Bond Service Reserve Account and the Reserve and Contingency Fund is limited to 10% of the proceeds of a Series, or such greater amount as set forth in a Supplemental Resolution and upon receipt by the Bond Fund Trustee of an opinion of nationally recognized counsel with particular expertise in tax matters pertaining to the treatment of interest on governmental obligations for federal tax purposes. Any deficiencies in the Reserve and Contingency Fund to the extent not remedied from the General Fund shall be accumulated from Revenues over a 60 month period.

The amounts in the Reserve and Contingency Fund shall be used (i) to provide funds and reserves for working capital in accordance with the current Annual Budget of the Authority, (ii) to reserve unexpended funds previously and currently budgeted for ordinary and anticipated renewals and replacements of the System, (iii) to reserve unexpended funds previously budgeted for ordinary and anticipated Maintenance and Operation Costs including purchased power and fuel costs, (iv) to reserve funds for unanticipated purchased power and fuel costs, (v) to pay the cost of extraordinary and unanticipated renewals and replacements (including those required to restore damage, loss or destruction of the System, but only to the extent not covered by the proceeds of insurance or other moneys recoverable as a result thereof), and (vi) to the payment of extraordinary and unanticipated Maintenance and Operation Costs.

If at any time the amounts in the Bond Service Account or the Bond Service Reserve Account in the Bond Fund shall be less than the amounts required by the Resolution and there shall not be on deposit in the General Fund sufficient moneys to cure any such deficiency, then the Authority shall transfer amounts from the Reserve and Contingency Fund to the Bond Fund Trustee for deposit in the appropriate Account to remedy or lessen any such deficiency.

Any balance of moneys and securities in the Reserve and Contingency Fund in excess of the minimum amount required or budgeted and reserved to be on deposit therein and not required to meet any such deficiencies in the Bond Fund or needed for any of the purposes for which such Fund was established may be deposited in the General Fund.

4. To the General Fund, the balance if any, in the Revenue Fund. The Authority must transfer from the General Fund (i) to the Bond Service Account and the Bond Service Reserve Account the amount necessary to make up any deficiencies in payments to such Accounts, (ii) to the Bond Service Reserve Account the amount of a deficiency therein resulting from a transfer to the Bond Service Account and (iii) to the Reserve and Contingency Fund to make up deficiencies therein.

Amounts in the General Fund not required to meet any of the foregoing deficiencies may be applied to any one or more of the following: (i) transfer to the Revenue Fund; (ii) transfer to the Bond Service Account for the purchase or redemption of any Bonds; (iii) payments of principal or redemption price of or any interest on any subordinated indebtedness (including bond anticipation notes); (iv) payments into Project Accounts established in the Construction Fund for application to the purposes of such Accounts; (v) improvements, extensions, betterments, renewals and replacements of any properties of the System; (vi) any other purposes of the Authority in connection with the System; (vii) any purpose of a separate utility system of the Authority established pursuant to the Resolution.

Transfers from the Revenue Fund to the Bond Fund, the Reserve and Contingency Fund and the General Fund are to be made as soon as practicable in each month after the deposit of Revenues in the Revenue Fund have been made for such month, but not later than the 25th day of each calendar month.

Construction Fund

The Construction Fund consists of a separate Project Account for each Project and, if required by a Supplemental Resolution, a corresponding Construction Interest Account. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Resolution and there may be paid into the Construction Fund, at the option of the Authority, any moneys received for or in connection with the System by the Authority from any other source, unless required to be otherwise applied as provided by the Resolution. In addition, the proceeds of insurance maintained pursuant to the Resolution against physical loss of or damage to the Project, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall be paid into the appropriate Project Account in the Construction Fund. Unless otherwise provided in the applicable Supplemental Resolution, investment earnings on the amounts deposited in each Project Account shall be retained therein and applied with other moneys on deposit in such Account to the purposes specified for such Account by the Resolution.

The Authority shall file with the Construction Fund Trustee a written request showing with respect to each payment to be made, a statement that it is part of the Cost of Construction of the Project, the name of the person to whom payment is due and the amount to be paid, and stating that the obligation to be paid was incurred and is a proper charge against such Project Account against which payment has not been made along with evidence that obligations in the stated amounts have been incurred by the Authority and that each item thereof is a proper charge against such Project Account; and that there has not been filed with or served upon the Authority notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such written request which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by operation of law.

Upon the filing of the Construction Engineer's Certificate evidencing completion of construction of a Project, the balance in the applicable Project Account in excess of the amount, if any, stated in such Certificate as required for payment of any remaining part of the Cost of Construction of such Project shall be paid over to the Bond Fund Trustee for deposit in the Bond Service Reserve Account to the extent necessary to make up deficiencies therein. Any remaining balance shall be deposited in any Project

Account for the purpose of completing other Projects or such other Project Account or the General Fund as the Authority may designate.

A Supplemental Resolution may require the Authority to deposit into a Construction Interest Account proceeds of the Bonds authorized thereby sufficient to pay when due all or a portion of the interest on such Bonds to not later than the Estimated Date of Commercial Operation of the Project financed with such Bonds. Investment earnings on amounts on deposit in a Construction Interest Account are retained therein until the amount deposited therein is sufficient to pay all of the interest on the applicable Series of Bonds through the Estimated Date of Commercial Operation of the applicable Project, and thereafter such investment earnings are deposited in the corresponding Project Account. The Construction Fund Trustee shall transfer from each Construction Interest Account to the Bond Fund Trustee for deposit in the Bond Service Account the portion of such interest payment payable from such Construction Interest Account. Upon receipt of the Construction Engineer's Certificate referred to in the preceding paragraph, the balance, if any, in the Construction Interest Account is transferred to the corresponding Project Account.

Investment of Certain Funds

Moneys held in the Bond Service Account and the Bond Service Reserve Account shall be invested and reinvested by the Bond Fund Trustee, at the direction of the Authority, to the fullest extent practicable only in those investments defined in clauses (i), (ii), (iii), (ix) and (xi) of the definition of Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed -for payments to be made from the Bond Service Account, and in the case of the Bond Service Reserve Account not later than fifteen years from the date of investment. Moneys held by the Authority in the Revenue Fund shall be deposited with any qualified depositary and invested and reinvested by the Authority in any Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such fund. Moneys held by the Authority in the Reserve and Contingency Fund shall be deposited with any qualified depositary and invested and reinvested by the Authority in any Investment Securities maturing not later than ten years from the date of investment, provided moneys shall be available for the purposes specified for such Fund. Moneys held by the Authority in the General Fund may be invested in the sole discretion of the Authority in any Investment Securities which mature not later than five years from the date of investment provided moneys shall be available for the purposes specified for such Fund. Net interest earned on any moneys or investments in the Revenue Fund, the Bond Fund, the Reserve and Contingency Fund and the General Fund, if in excess of the requirements for such Funds, shall be paid into the Revenue Fund. As used herein, the term "qualified depositary" means a bank or trust company organized under the laws of the State or a national banking association, having capital stock, surplus and undivided profits aggregating at least $500,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution.

Amounts in the Construction Fund shall be invested and reinvested at the direction of the Authority by the Construction Fund Trustee in Investment Securities so as to provide funds to make all required payments from such Account. Net interest earned on any moneys or investments in the Construction Fund, if in excess of the requirements of such Fund, may, at the option of the Authority, be retained therein or paid into the Revenue Fund.

Investment Securities in the Bond Service Reserve Account and the Reserve and Contingency Fund are valued at amortized cost.

Additional Bonds and Refunding Bonds

One or more Series of Additional Bonds may be issued from time to time in such principal amount as may be determined by the Authority for the purpose of paying all or a portion of the Cost of Construction of a Project or repayment of moneys borrowed by the Authority through the issuance of subordinated indebtedness or Bond anticipation notes for the purpose of paying all or a portion of the Cost of Construction of a Project.

Each Series of Additional Bonds shall be authenticated and delivered by the Bond Fund Trustee only upon receipt by the Bond Fund Trustee, in addition to any other documents required by the Resolution, of the following documents, all dated as of the date of such delivery:

(1) An opinion of independent counsel to the effect that the Authority is authorized to undertake the Project;

(2) A Construction Engineer's Certificate setting forth the then Estimated Date of Commercial Operation and the then estimated Cost of Construction of the Project; and

(3) A certificate of the Authority setting forth: (i) the Bond Service for each Bond Year of the Bonds of such Series, or (ii) the Aggregate Bond Service for all Outstanding Bonds, including such Series of Bonds being issued, for each Bond Year, whichever is applicable, to show compliance with the provisions of the preceding paragraph.

In addition, the Bond Fund Trustee shall receive the following in the case of Additional Bonds issued and delivered to pay the Cost of Construction of any Project for which Bonds have not theretofore been issued, all such documents to be dated as of the date of such delivery:

(1) An Accountant's Certificate of independent public accountants setting forth the following: Net Revenues of the Authority for the preceding year computed to a quarter ending within one hundred twenty days and the Aggregate Bond Service during the year so selected with respect to the period of time specified above, and stating that based on the information set forth above, Net Revenues are at least equal to 1.00 times the Aggregate Bond Service for the year specified.

(2) A Consulting Engineer's Certificate to the effect that (i) such Project can be beneficially used by the Authority to meet the long-term power and energy requirements of power purchasers, and (ii) in the event not all energy and capacity, use or services of a Project are needed on the Estimated Date of Commercial Operation to meet the requirements of power purchasers and in the event a portion of the Estimated Net Revenues referred to in the Consulting Engineer's Certificate described in the following paragraph are projected to be derived from the sale of surplus energy or capacity to those other than existing power purchasers, there will be a market (specifying such market) for such surplus energy and/or capacity, use or services at the rates used in computing that portion of the Estimated Net Revenues to be derived from such sales.

(3) A Consulting Engineer's Certificate showing that Estimated Net Revenues (i) for each of the five Calendar Years succeeding the latest Estimated Date of Commercial Operation of any uncompleted Project (where a Construction Interest Account is created pursuant to a Supplemental Resolution and is funded from proceeds of Additional Bonds), or (ii) for the then current year and each succeeding year to and including the fifth Calendar Year succeeding the latest Estimated Date of Commercial Operation of any uncompleted Project (where a Construction Interest Account is not created), are not less than 1.00 times the Aggregate Bond

Service for each of such Calendar Years with respect to all Series of Bonds to be Outstanding immediately after the authentication and delivery of such Series of Additional Bonds and all future Series of Bonds required for completion of any uncompleted Projects.

The provisions described in this paragraph do not apply to any Series of Additional Bonds to provide funds (i) necessary to complete a Project commenced under the terms of the Resolution for which Bonds have been issued, or (ii) additions, extraordinary repairs, renewals, replacements, expansions, betterments, modifications, capital additions and improvements for any Project (a) which are required by any governmental agency or authority with authority to issue or make and enforce an order or decision requiring the same, or (b) which in the opinion of the Consulting Engineer are necessary or desirable to achieve design capability, to improve operating reliability, to reduce unit power costs, prevent a loss of Revenues or for safety, public health or environmental purposes, or (iii) the deposit or deposits permitted to be made under the Resolution from the proceeds of Bonds into any fund or account established pursuant to the Resolution, or (iv) payment of the costs of preliminary and development work including engineering, legal, financial studies, in connection with the planning and development of power resources and the determination of the feasibility thereof; provided, however, that the aggregate principal amount of such Bonds issued pursuant to clause (iv) at any time Outstanding shall not exceed 5 % of the principal amount of all Bonds then Outstanding, or (v) refunding any note or other evidence of indebtedness issued in anticipation of the issuance of Bonds the proceeds of which have been or are to be applied to one or more of the purposes specified in clauses (i) through (iv).

One or more Series of Refunding Bonds may be issued in such principal amount which, when taken together with funds otherwise provided by the Authority and available therefor, will provide the Authority with funds sufficient for the purpose of refunding all Outstanding Bonds of one or more Series, or of one or more maturities within a Series or portions thereof, without meeting any additional bonds test.

Variable Rate Bonds

The Authority is authorized to issue Variable Rate Bonds. The Supplemental Resolution providing for the issuance of such Variable Rate Bonds may provide for the Authority to obtain a support facility or facilities or alternate support facilities and enter into support agreements in connection therewith, enter into remarketing agreements and appoint remarketing agents, appoint tender agents to accept mandatory or optional tenders of Variable Rate Bonds, provide for interest to be payable and the interest rate redetermined on such dates and interest to accrue over such periods as set forth in such Supplemental Resolution, provide for the establishment, use, composition, adjustment and change of interest indices or modes or the establishment and use of alternate interest indices or the establishment of a fixed interest rate or rates, provide for the establishment and investment of special funds and accounts in connection with the issuance of such Variable Rate Bonds, including Escrow Funds, provide for special redemption or purchase provisions for such Variable Rate Bonds and establish notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Bonds. As long as the insured 1987 and 1993 Bonds continue to be insured by municipal bond insurers, no Variable Rate Bonds may be issued without the prior written consent of the respective insurers.

Subordinated Indebtedness and Bond Anticipation Notes

The Authority may at any time issue indebtedness payable out of and secured by a pledge of amounts in the General Fund as may be available from time to time for the purpose of paying such indebtedness, *provided* that such indebtedness shall be incurred only with respect to one or more of the purposes set forth in the definition of a Project, and *provided further* that such pledge shall be expressly subordinate in all respects to the pledge of Revenues, moneys, securities and funds created by the Resolution. Nothing

herein prevents the Authority from entering into interest rate swap, exchange or similar agreements which are payable from Revenues on a basis subordinate, junior and inferior to all Bonds.

In addition, the Authority may issue Bond anticipation notes following the adoption of a resolution authorizing a Project. Any such Bond anticipation notes shall be secured by a lien and pledge on the Revenues junior and subject to the lien and pledge on the Revenues created by the Resolution for the payment and security of the Bonds, and payments of any Bond anticipation notes shall be made after the required payments are made into the Bond Fund and the Reserve and Contingency Fund and after payment of Maintenance and Operation Costs.

Separate Utility System

The Authority may issue indebtedness for a separate water or electric utility system secured by the revenues derived from such system if an independent consulting engineer delivers a report that the plan for development is consistent with sound planning and would be useful to the Authority, the separate system can be economically and efficiently utilized and the costs of services from such system are reasonable in comparison to alternate available resources and if the Consulting Engineer under the Resolution delivers a report that the acquisition of such separate utility system will not reduce Revenues below rate covenant requirements.

Contract Revenue Bonds

The Authority may issue contract revenue bonds to finance facilities for another agency or entity secured by payments under the lease or other contractual arrangement with respect to such facilities.

Covenants of the Authority

Against Encumbrances. The Authority may not create a mortgage upon the System or any facilities thereof while any Series of Bonds are Outstanding. The Authority will not create, or permit the creation of, any pledge, lien, charge or encumbrance upon the Revenues except as provided in or permitted by the Resolution.

Disposition of Property. The Authority may not sell, lease, mortgage or otherwise dispose of any part of the System except for sales or exchanges of property or facilities (i) which are not useful in the operation of the Authority's business, or (ii) the proceeds of the sale of which are $200,000 or less, or as to which the Authority shall file with the Bond Fund Trustee an Authorized Officer's certificate stating, in the opinion of the signer, that the market value of the property or facilities exchanged is $200,000 or less. If such proceeds or market value exceeds $200,000, the Authority must certify to the Bond Fund Trustee that its ability to comply with the rate covenant described under the caption "Rates and Charges" below will not be impaired and that there will be no impairment of the ability of the Authority to meet its obligations under the Resolution. Prior to the Date of Commercial Operation of any Project, the proceeds of any such sale or exchange not used to replace the property so sold and exchanged shall be paid into the appropriate Project Account and, after such Date of Commercial Operation, shall be paid to the Authority for deposit as Revenues. The proceeds of any sale, lease or mortgage or other disposition of fuel, fuel assemblies, fuel materials or components therefor shall be paid into the Reserve and Contingency Fund.

Rates and Charges. The Authority will, at all times while any Bonds shall be Outstanding, establish, fix, prescribe, maintain and collect rates and charges for the sale or use of electric power and energy or other services so as to provide Revenues which together with other available funds shall be sufficient to make when due (i) all payments, transfers and deposits which the Authority is obligated to pay, transfer and deposit under the Resolution and with respect to each Series of Bonds issued hereunder,

(u) the Maintenance and Operation Costs of the System, including all taxes, assessments or other governmental charges lawfully imposed on the Authority, and (iii) all other charges or obligations against the Revenues of the Authority of whatsoever nature and whether now or hereafter imposed by law or by contract.

Insurance. Subject in each case to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions, the Authority will maintain insurance on the System in such amounts and against such risks as are usually insurable in connection with similar systems and are usually carried by electric utilities operating similar systems. The Authority will also maintain public liability insurance in an amount usually obtained by electric utilities operating similar systems.

Accounts, Reports and Annual Budget. The Authority will at all times keep books of record and accounts in accordance with generally accepted accounting principles in which complete and accurate entries shall be made of all transactions relating to the System and the Revenues. Such books of record and accounts shall be subject to the inspection of the Bond Fund Trustee, the Construction Fund Trustee or the Holders of not less than 5% of the Bonds then Outstanding, or their representatives authorized in writing.

The Authority will place on file with the Bond Fund Trustee annually within 120 days after the close of each Calendar Year, so long as any Bonds are Outstanding, a financial statement in reasonable detail for the preceding Calendar Year showing the Revenues and all expenditures therefrom, together with a balance sheet in reasonable detail reflecting the financial condition of the Authority, including the balance of all funds relating to the System as of the end of each Calendar Year, which financial statement and balance sheet shall be accompanied by an Accountant's Certificate.

The Authority will adopt an Annual Budget for each Calendar Year setting forth for the Calendar Year: (i) the estimated Revenues, (ii) the Aggregate Bond Service requirement, (iii) the estimated Maintenance and Operation Costs, (iv) the estimated requirements for the Bond Service Reserve Account or the Reserve and Contingency Fund, if any, (v) the outstanding subordinated debt service requirements, if any, and (vi) any other requirements of the System and the Resolution.

The Authority shall furnish the Bond Fund Trustee, forthwith upon becoming aware of any Event of Default or other default in the performance by the Authority of any covenant, agreement or condition contained in the Resolution, with a Written Certificate of the Authority specifying such default.

The reports, statements ad other documents required to be furnished to the Bond Fund Trustee pursuant to any provisions of the Resolution shall be available for the inspection of Bondholders at the office of the Bond Fund Trustee.

Amendments and Supplemental Resolutions

Any of the provisions of the Resolution may be amended by the Authority by a Supplemental Resolution upon the consent (i) of the holders of at least 60% in principal amount of all Bonds then Outstanding, and (ii) if less than all of the several Series of Outstanding Bonds are affected, of the holders of at least 60% of the Bonds of each affected Series, and (iii) if the amendment changes the terms of any Sinking Fund Installment, of the holders of at least 60% of the Bonds of the Series and maturity for which such Sinking Fund Installment was established; excluding, in each case, from such consent, and from the Outstanding Bonds, the Bonds of any specified series and maturity if such amendment by its terms will not take effect so long as any of such Bonds remain Outstanding. Any such amendment may not permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or any installment of interest thereon or a reduction in principal or Redemption Price thereof or interest thereon

without the consent of each affected holder, or reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required for a further amendment.

The Authority may adopt (without the consent of any holders of the Bonds) Supplemental Resolutions to further restrict the Resolution against or impose limitations upon, the issuance of Bonds or other evidences of indebtedness; to authorize Bonds; to add to the restrictions contained in the Resolution; to add to the covenants and agreements of the Authority contained in the Resolution; to confirm any pledge under the Resolution of Revenues or other moneys, securities or other funds; to obtain or maintain ratings; to cure any ambiguity, supply any omission or correct any defect or inconsistent provision in the Resolution; to clarify matters or questions arising under the Resolution and not contrary to or inconsistent with the Resolution; to add or modify any provision of the Resolution as the result of enactment of any state or federal law which changes the treatment of the Bonds or interest thereon for tax purposes.

Events of Default and Remedies

Events of Default specified in the Resolution include failure to pay principal or Redemption Price of any Bond when due and payable, whether at maturity, by proceedings for redemption, by declaration or otherwise; failure to pay any interest installment on any Bond or any Sinking Fund Installment thereon when due; default in the observance or performance of any other covenants, agreements or conditions and continuance for 90 days after written notice thereof is delivered by the Holders of 25% of the Bonds outstanding unless such failure cannot be corrected within such 90 day period and corrective action is instituted and diligently pursued; and certain events of bankruptcy or insolvency. Upon the happening of any such Event of Default the Bond Fund Trustee or the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall be entitled, upon notice in writing to the Authority (and in the case of Bondholders, to the Authority and Bond Fund Trustee) to declare the principal of and accrued interest on all Bonds then Outstanding due and payable immediately (subject to a rescission of such declaration upon the curing of such default).

Upon occurrence of any Event of Default which has not been remedied, the Authority will, upon demand of the Bond Fund Trustee, pay over to the Bond Fund Trustee (i) forthwith, all moneys, securities and funds held by the Authority in any Fund pursuant to the Resolution, and (ii) as soon as practicable, all Revenues. The Bond Fund Trustee will apply all moneys, securities, funds and Revenues received during the continuance of an Event of Default in the following order: (i) to payment of the reasonable and proper charges, expenses and liabilities of the Bond Fund Trustee, including the cost of securing the services of any consulting or other engineer retained to render advice to the Bond Fund Trustee, (ii) to the payment of the reasonable and proper charges and expenses of the System, including repairs and replacement of facilities of the System, necessary in the discretion of the Bond Fund Trustee to prevent loss of Revenues, and (iii) to the payment of interest and principal or the Redemption Price of Bonds. In addition, the Bond Fund Trustee will have the right to apply in an appropriate proceeding for appointment of a receiver of the System.

If an Event of Default has occurred and has not been remedied the Bond Fund Trustee may, or on request of the holders of not less than 25% in principal amount of Bonds Outstanding must, proceed to protect and enforce its rights and the rights of the Bondholders under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant in the Resolution or in aid of the execution of any power granted in the Resolution or any remedy granted under the Act, or in the enforcement of any other legal or equitable right as the Bond Fund Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Resolution. The Bond Fund Trustee may, and upon the request of the holders of a majority in principal amount of the Bonds then Outstanding and upon being furnished with reasonable security and indemnity must, institute and maintain proper actions

to prevent any impairment of the security under the Resolution or to preserve or protect the interests of the Bond Fund Trustee and of the Bondholders.

No Bondholder will have any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless (i) such Bondholder previously has given the Bond Fund Trustee written notice of an Event of Default, (ii) the holders of at least 25% in principal amount of the Bonds then Outstanding have filed a written request with the Bond Fund Trustee and have afforded the Bond Fund Trustee a reasonable opportunity to either exercise its powers or institute such suit, action or proceeding, (iii) there have been offered to the Bond Fund Trustee adequate security and indemnity against its costs, expenses and liabilities to be. incurred, and (iv) the Bond Fund Trustee has refused to comply with such request within 60 days. Nothing in the Resolution or the Bonds shall affect or impair the Authority's obligation to pay the Bonds or interest thereon when due or the right of any Bondholder to enforce such payment.

The holders of not less than a majority in principal amount of Bonds then Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Bond Fund Trustee or of exercising any trust or power conferred upon the Bond Fund Trustee, subject to the Bond Fund Trustee's right to decline to follow such direction upon advice of counsel as to the unlawfulness thereof or upon its good faith determination that such action would involve the Bond Fund Trustee in personal liability or would be unjustly prejudicial to Bondholders not parties to such direction.

Notice of Default

Notice of the occurrence of any Event of Default will be given in writing to each registered owner of Outstanding Bonds.

Defeasance

If the Authority shall pay or cause to be paid the principal or Redemption Price, if applicable, and interest due or to become due on all Bonds Outstanding, then the pledge of any Revenues, and other moneys, securities and funds pledged under the Resolution and all covenants, agreements and other obligations of the Authority to the Bondholders shall, at the option of the Authority expressed by written request thereupon cease, terminate and become void and be discharged and satisfied. If there shall be paid or caused to be paid the principal or Redemption Price, if applicable, and interest due or to become due on any Bonds Outstanding, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the Authority to the holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

The pledge of any Revenues and other moneys and securities under the Resolution and all covenants, agreements and other obligations of the Authority to the Bondholders under the Resolution will cease, terminate and become void and be discharged and satisfied whenever all Bonds have been paid in full. Bonds will be deemed to have been so paid whenever the following conditions are met: (i) in the case of Bonds to be redeemed prior to maturity, the Authority has given to the Bond Fund Trustee irrevocable instructions to mail the notice of redemption therefor, (ii) there have been deposited with the Bond Fund Trustee either moneys in an amount which will be sufficient, or Investment Securities as defined below, the principal of and the interest on which, when due, will provide moneys which, together with any moneys also deposited, will be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds on or prior to the redemption date or the maturity date thereof, as the case may be, and in any event such provision shall not require the redemption of Bonds Outstanding prior to maturity, and (iii) in the event such Bonds are not subject to redemption

within the next succeeding 60 days, the Authority has given the Bond Fund Trustee irrevocable instructions to mail, as soon as practicable, a notice to the Holders of such Bonds that the above deposit has been made with the Bond Fund Trustee and that such Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, of such Bonds.

For the purposes of the defeasance provisions of the Resolution, Investment Securities shall mean any of the following which are noncallable and which at the time are legal investments for the moneys proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America; (ii) certificates of ownership of the principal of or interest on obligations referred to in clauses (i) or (v) hereof, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System; (iii) bonds, debentures or notes issued by any of the following Federal agencies: Banks for Cooperatives, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal National Mortgage Association or Government National Mortgage Association (including Participation Certificates issued by either Association), United States Postal Service or Federal Financing Bank; (iv) New Housing Authority Bonds, Temporary Notes, or Preliminary Loan Notes, fully secured by contracts with the United States; or (v) any obligations of any state or political subdivision of a state (collectively, "Escrowed Municipal Bonds") which Escrowed Municipal Bonds are fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holders of the Escrowed Municipal Bonds.

Transfer and Exchange

Any Bond may, in accordance with its terms, be transferred or exchanged, upon the Books of Registry, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written, instrument of transfer in a form approved by the Bond Fund Trustee, duly executed. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Bond Fund Trustee shall authenticate and deliver or direct an authenticating agent to authenticate and deliver a new Bond or Bonds, for like aggregate principal amount. The Bond Fund Trustee or authenticating agent shall require the payment by the Bondholder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The Authority shall not be required to issue, register the transfer or exchange of any Bond: (i) (a) during a period beginning at the opening of business fifteen (15) days before the day of mailing of a notice of redemption of 1987 Bonds selected for redemption and ending at the close of business on the day of such mailing, or (b) a period beginning at the close of business on the record date for such Bond as set forth in the Supplemental Resolution and ending on the close of business on the date preceding an interest payment date for such Bond, or (ii) so selected for redemption in whole or in part, except the unredeemed portion of Bonds being redeemed in part. The Authority, the Bond Fund Trustee and any fiduciary may deem and treat the person in whose name any Outstanding Bonds shall be registered upon the books of the Authority as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and redemption price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such 1987 Bond to the extent of the sum or sums so paid, and the Authority, the Bond Fund Trustee or any fiduciary shall not be affected by any notice to the contrary.

Trustees and Paying Agents

The Resolution contains provisions regarding the appointment and removal of trustees by the Authority and the Bondholders, and of paying agents by the Authority.

Additional Provisions with Respect to Municipal Bond Insurance

For a description of certain additional provisions of the Resolution with respect to the 2008 Bonds, see "BOND INSURANCE" in this Official Statement.

Proposed Amendment to General Bond Resolution

For a description of a proposed amendment to the General Bond Resolution, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Proposed Amendment to General Bond Resolution" and Appendix C in this Official Statement.

APPENDIX B

INDEPENDENT ENGINEER'S REPORT

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GRAND RIVER DAM AUTHORITY

Vinita, Oklahoma

INDEPENDENT ENGINEER'S REPORT

GRDA's Acquisition of the Redbud Power Plant

August 28, 2008

Prepared by

C. H. GUERNSEY & COMPANY

Engineers • Architects • Consultants

Oklahoma City, Oklahoma

GUERNSEY

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Section 1 Executive Summary

C.H. Guernsey & Company (GUERNSEY) submits this Independent Engineer's Report supporting the Grand River Dam Authority's (GRDA's) acquisition of the Redbud Power Plant (Redbud or Facility). GRDA, along with Oklahoma Gas & Electric (OG&E) and Oklahoma Municipal Power Authority (OMPA) (collectively, Owners) have entered into numerous agreements whereby all three entities will have an undivided ownership share of Redbud.

The Redbud plant began commercial operations in May 2004 after being developed by InterGen North America LP (InterGen). According to press releases, the plant began construction in August 2001 and cost $740 million.[1] InterGen was a joint venture between subsidiaries of Royal Dutch/Shell Group (68%) and Bechtel Group, Inc. (32%). Redbud was among several US assets owned by InterGen which were sold in 2005 to Kelson Holdings (Kelson).

On January 21, 2008, Kelson agreed to sell the plant to OG&E, GRDA, and OMPA for $852 million. Subject to various regulatory approvals and closing conditions, OG&E will operate the plant and own a 51% share, while Grand River Dam Authority will acquire a 36% stake and Oklahoma Municipal Power Authority will acquire a 13% interest in the Redbud facility.[2]

Redbud is a nominal 1,230 MW gas-fired combined cycle plant near Luther, Oklahoma. The plant consists of four units, each consisting of a GE 7FA combustion turbine, a Foster Wheeler heat recovery steam generator, and an Alstom steam turbine. Redbud is situated on a 320 acre site, of which 80 acres are used for the plant footprint.

The Facility is interconnected to OG&E pursuant to a November 27, 2000 Interconnection Agreement.

As described in this report, GUERNSEY finds:

1) The purchase cost is reasonable as compared to similar projects in the U.S.

2) Redbud uses proven technology, design and equipment. Forecast availability and reliability levels are reasonable.

3) The proposed organization and staffing plan for the Facility will provide the technical expertise, experience, training and capabilities to perform required O&M activities consistent with industry standards.

4) All necessary, material environmental permits for Redbud have been obtained.

5) For the period from October 1, 2008 through September 30, 2009, GRDA will be able to receive up to 457 MW of its share of Redbud output on a firm basis into the GRDA system, except that for the period from June 1, 2009 through August 31, 2009, GRDA will be able to receive only 339 MW on a firm basis. SPP is currently studying 307 MW of long-term firm transmission service from Redbud to the GRDA system, which would be in addition to the 150 MW that GRDA already has.

6) There should be adequate gas available in the market meeting desired specifications to fuel Redbud and there is a low probability of delivery constraints.

7) The projected cost of power is expected to be competitive with similar projects in the U.S. and represents both the lowest cost alternative for GRDA and an environmentally prudent resource.

8) Agreements are in place that include sufficient provisions for the effective operation and maintenance of the Facility. GUERNSEY is not providing an opinion as to legality or enforceability of the Agreements.

9) The assumptions contained within the projected operating results, including information regarding plant outages, are reasonable, based upon typical power generation industry benchmarks and historical results.

10) The expected useful life of the plant is expected to be at least 30 years, which is beyond the term of the bonds.

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[1] "InterGen North America to install generators in OK facility". *SNL Interactive*, February 21, 2002.
[2] "Oklahoma utilities to acquire natural gas plant from Kelson Holdings" by Kinjal Sathwara. *SNL Interactive*, January 22, 2008.

Section 2 Overview of GRDA

2.1 Grand River Dam Authority

GRDA is a non-appropriated agency of the state of Oklahoma, created by the Oklahoma Legislature in 1935 to be a conservation and reclamation district for the waters of the Grand River.[3] As specified in the legislation, GRDA's first two responsibilities are:

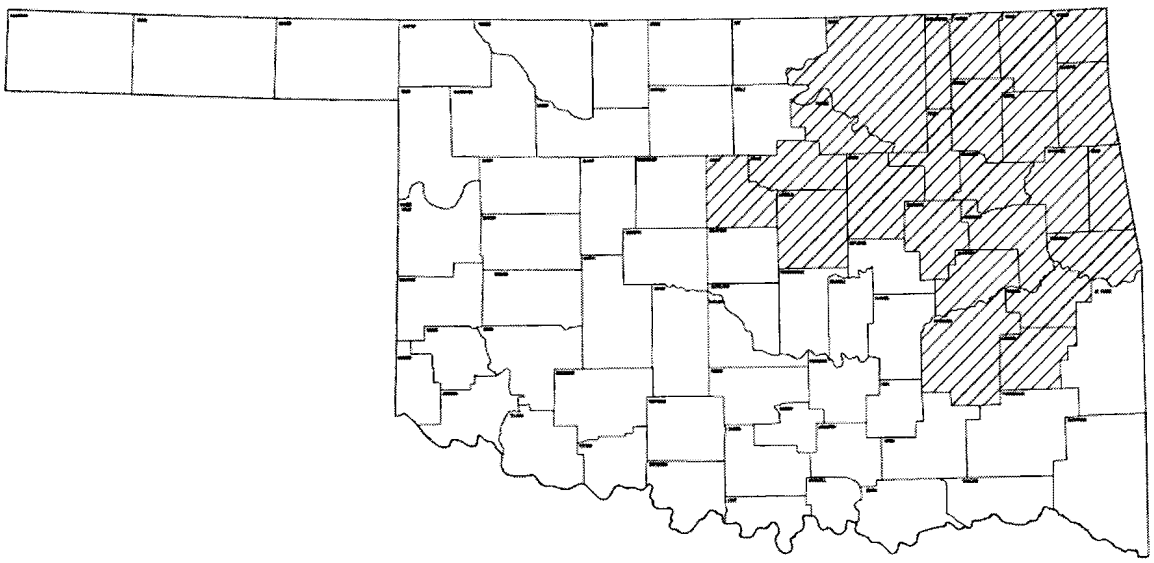
> (a) To control, store and preserve, within the boundaries of the district (GRDA), the water of the Grand River and its tributaries for any useful purpose and to use, distribute and sell the same within the boundaries of the district.
>
> (b) To develop and generate water power and electric energy within the boundaries of the district.

GRDA has adopted the following mission statement pursuant to its responsibilities: [4]

> **GRDA MISSION STATEMENT.** Our mission is to provide low-cost, reliable electric power and related services to our customers and to be responsive to the interests and concerns of public power users, the communities we affect, and the people of the state of Oklahoma. We pledge to assist in area economic development and help our customers adapt to changes in their business environments, as well as making certain that on and around our lakes we will support recreational development, environmental awareness, and good safety practices to ensure the continued improvement of the quality of life for all of those who utilize our resources.

GRDA currently fulfills its responsibilities by operating a transmission system, three hydroelectric facilities, a two-unit coal-fired plant, and managing two lakes, along the Grand River system. GRDA utilizes the revenues earned as a public power agency to finance its activities as a conservation and reclamation district. GRDA's service territory, shown in Figure 1, is in the northeastern part of Oklahoma encompassing 24 counties.

Figure 1 – GRDA's 24-County Service Territory



[3] 82 OS § 861; 82 OS § 862

[4] http://www.grda.com/AboutGRDA/whoarewe.html (accessed June 17, 2008).

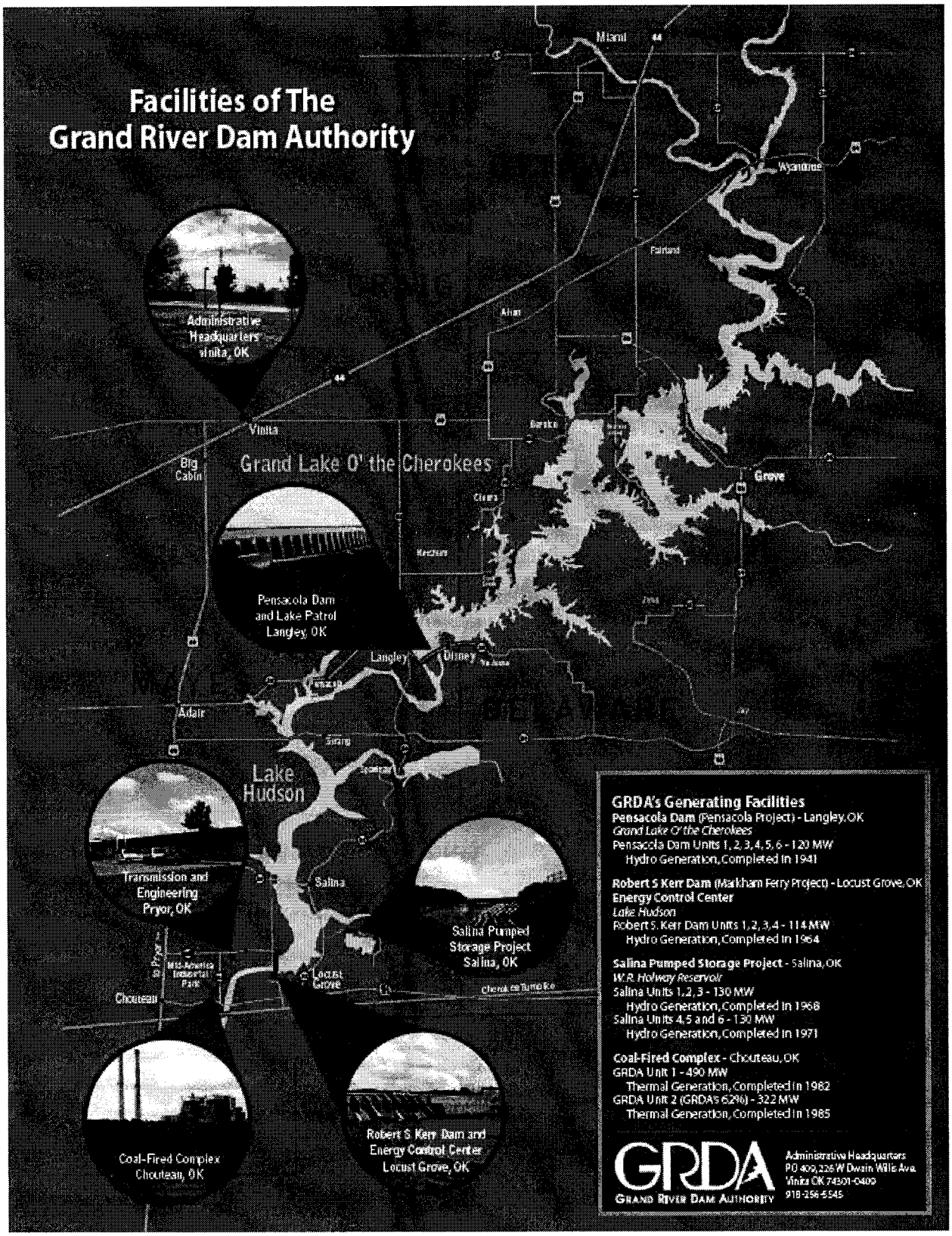
In addition to its generation and transmission facilities, GRDA has other facilities as shown in Table 1. The locations of GRDA's primary facilities are shown in Figure 2.

Table 1 – GRDA's Other Facilities[5]

Administration Headquarters	Vinita, OK
Energy Control Center	Locust Grove, OK
Lake Patrol Headquarters	Langley, OK
Cushing Field Office	Cushing, OK
Transmission, Distribution, and Engineering Headquarters	Pryor, OK
Satellite Office	Oklahoma City, OK

[5] Miscellaneous Statistics, GRDA *2007 Comprehensive Annual Financial Report*, p. 60.

Figure 2 – GRDA Facilities Map



2.2 Organization

GRDA conducts operations with a staff of approximately 500 employees with the General Manager acting as Chief Executive Officer. The Board of Directors (Board) consists of seven members.

2.2.1 Board of Directors

GRDA is governed by a seven-member Board comprised of representatives from each GRDA customer class (municipals, electric cooperatives and industrials) as well as the GRDA lakes area. Two at-large representatives also sit on the Board.

The Governor of Oklahoma is responsible for appointing three of the Board members, and the Speaker of the Oklahoma State House of Representatives and President Pro Tempore of the Oklahoma State Senate each appoint one Board member. Two other Board positions are ex-officio positions, filled by the general manager of the Oklahoma Association of Electric Cooperatives (OAEC) and executive director of the Municipal Electric Systems of Oklahoma (MESO) or by their designees. Board members serve staggered, seven-year terms, with one position opening each year, to ensure continuity.

Table 2 – GRDA Board of Directors as of December 31, 2007[6]

	Name	Appointment	City
	Terry Frost, Chairman	At-large director. Appointed by the Oklahoma Governor.	Afton, OK
	W. Brent LaGere, Chairman-elect	At-large director. Appointed by Speaker of the House of Representatives.	Chandler, OK
	Mike Cantrell	At-large director. Appointed by President Pro Tempore of the Senate.	Ada, OK
	David Chernicky	Representing industrial and commercial customers. Appointed by the Oklahoma Governor.	Tulsa, OK

[6] http://www.grda.com/AboutGRDA/board.html (referenced April 11, 2008).

	Name	Appointment	City
	Jim Frasier	Representing economic development interests, lake enthusiasts and property owners. Appointed by the Oklahoma Governor.	Tulsa, OK
	Gerald "Buck" Gay	Ex-officio director. Oklahoma Association of Electric Cooperatives General Manager designee.	Adair, OK
	Steve Spears	Ex-officio director. Municipal Electric Systems of Oklahoma Executive Director designee.	Cushing, OK

2.2.2 GRDA Senior Management

The Board selects the General Manager (CEO) and the Treasurer, who may also hold the office of Secretary.

Table 3 – GRDA Senior Management as of December 31, 2007

	Name	Professional Background
	Kevin A. Easley Chief Executive Officer	Mr. Kevin Easley is the Chief Executive Officer of the Grand River Dam Authority. Easley assumed leadership of the Authority in March 2004. He is a member of the Southwest Power Pool Governance Committee and the American Public Power Association Board of Directors. Easley, a former energy executive with Samson Resources, served 20 years in the Oklahoma Legislature, where he authored some of the most progressive energy legislation in the country. During his time in the Oklahoma Senate, Easley chaired the Oklahoma State Energy, Environment and Natural Resources Committee. He received degrees in accounting/business management from the University of Tulsa.
	Michael Kiefner, JD Chief Operating Officer	Mr. Michael Kiefner is the Grand River Dam Authority Chief Operating Officer. Kiefner first joined GRDA in 2004 after serving for a decade as an Oklahoma State Senate Staff Attorney. Prior to that, he served as the general counsel for a large Oklahoma-based financial institution. Kiefner received his Juris Doctorate from Oklahoma City University.

	Name	Professional Background
	Charles Barney, PE Assistant General Manager (AGM) of Thermal Generation	Mr. Charles Barney serves as the Grand River Dam Authority's Assistant General Manager of Thermal Generation (Coal Fired Complex). Barney holds a Master's of Science Degree in Mechanical Engineering and is also a registered professional engineer in the state of Oklahoma. He has over 30 years of experience in power plant design/operations and first joined GRDA in 1988.
	Carolyn Dougherty, CPA Chief Financial Officer / Treasurer	Mrs. Carolyn Dougherty is the Grand River Dam Authority Chief Financial Officer. After serving as an emerging business consultant for Deloitte, Haskins and Sells for three years, she joined GRDA in 1986. She served 18 years as special projects director for the GRDA General Manager before being named Assistant General Manager of Market Analysis and Strategic Development in 2004. In 2005, Dougherty was named GRDA Chief Financial Officer. She holds a Bachelor's of Science Degree in Accounting from Oklahoma State University.
	Anthony Due AGM of Operations and Hydro	Mr. Anthony Due is a 34 year veteran of the Grand River Dam Authority, and currently serves as the GRDA Assistant General Manager of Operations and Hydro. A graduate of the Draughons School of Business, Due is certified by the North American Electric Reliability Corporation (NERC) as an electrical system operator. He represents GRDA on the Western Systems Power Pool Operating Committee and oversees operations of GRDA's energy delivery system and control area.
	Robert Sullivan AGM of Risk Management and Regulatory Compliance	Mr. Bob Sullivan, the Grand River Dam Authority's Assistant General Manager of Risk Management and Regulatory Compliance, first joined GRDA 1977, then serving as General Counsel. He has filled his current position with GRDA since 1988. Sullivan earned his Juris Doctorate from the University of Tulsa. From 1970 through 2005, he served with the Oklahoma National Guard; the last 18 years in the role of Judge Advocate General. He retired with the rank of Lieutenant Colonel.
	Dale Willis AGM of Transmission and Engineering	Mr. Dale Willis, a 29 year veteran of the Grand River Dam Authority Transmission Department, has served as GRDA Assistant General Manager of Transmission since 2003. Willis has over three decades of experience in power line maintenance responsibilities.
	Gretchen Zumwalt-Smith General Counsel	Mrs. Gretchen Zumwalt-Smith has served as General Counsel of the Grand River Dam Authority since January 2005. Zumwalt-Smith served 10 years as assistant attorney general for the State of Oklahoma and spent 10 years in private practice in the area of securities and commercial litigation. Zumwalt-Smith received her Juris Doctorate from the University of Oklahoma.

2.3 Power Production and Delivery

2.3.1 Generation Facilities

GRDA operates three hydroelectric facilities along the Grand River system. These facilities, along with the GRDA Coal-Fired Complex, combine for a total generation capability of 1,306 megawatts (MW) to serve GRDA's primary load requirements.

Table 4 – Generation Facilities[7]

Generating Facilities	Location	Rated Capability (MW)	Generating Fuel	Date of Commercial Operation
Pensacola Project, Grand Lake O' the Cherokees: Pensacola Dam Units 1, 2, 3, 4, 5, and 6	Langley, OK	120 MW	Hydro	1941
Markham Ferry Project, Lake Hudson: Robert S. Kerr Dam Units 1, 2, 3, and 4	Locust Grove, OK	114 MW	Hydro	1964
Salina Pumped Storage Project, W.R. Holway Reservoir: Salina Units 1, 2, and 3 Salina Units 4, 5, and 6	Salina, OK	130 MW 130 MW	Hydro	1968 1971
Coal-Fired Complex GRDA Unit 1 GRDA Unit 2 (GRDA's 62%)	Chouteau, OK	490 MW 322 MW	Coal	1982 1985

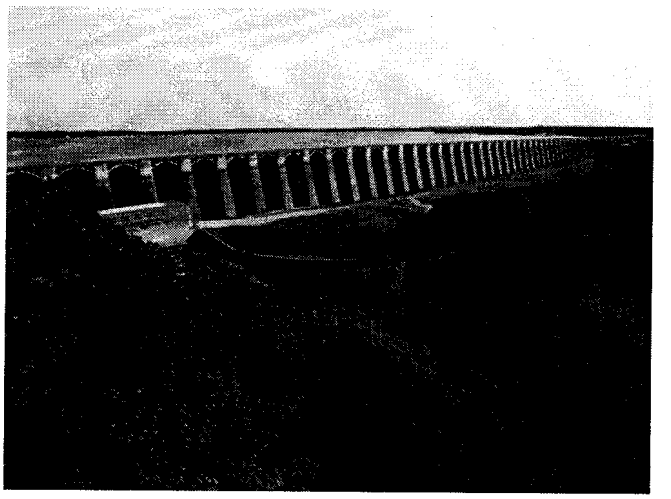
[7] Miscellanous Statistics. GRDA *2007 Comprehensive Annual Financial Report*, p. 60.

2.3.1.1 Pensacola Dam

Hydroelectric projects on the Grand River began with the Pensacola Dam. Construction was initiated in 1938 and completed in 1941. The Grand River Dam, as it is also known, was the first hydroelectric facility built in Oklahoma and is considered the longest multiple-arch dam in the United States. The dam stretches across the Grand River and creates the Grand Lake O' The Cherokees, one of Oklahoma's major recreational areas with thirteen hundred miles of shoreline. Pensacola Dam operates under FERC license #1494 issued April 24, 1992.

The dam and associated reservoir are capable of impounding 1,672,000-acre feet of water. The hydroelectric generating plant consists of six units for a total net generating capability of 120 MW. The units were refurbished after an eight-year project completed in May 2003.

Figure 3 – Pensacola Dam

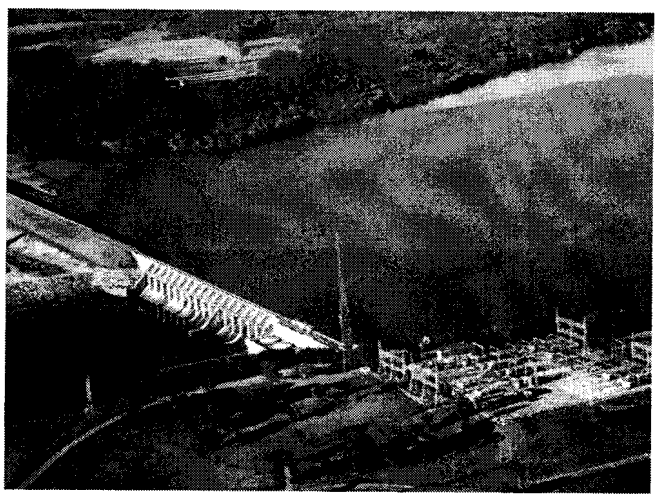


2.3.1.2 Robert S. Kerr Dam

The Robert S. Kerr Dam, originally named the Markham Ferry Project, is downstream from Pensacola, just north of Locust Grove. Constructed between 1958 and 1964, the Kerr Dam created Lake Hudson, a 12,000-acre lake with two hundred miles of shoreline. The facility is essentially a run-of-river hydroelectric facility, operating primarily with water released from the upstream Pensacola Dam.

The Markham Ferry Hydropower Project at the Robert S. Kerr Dam facility consists of an earthfill and concrete dam and powerhouse. Power generating facilities are comprised of four turbine-generator units having an aggregate net generating capability of 114 MW. The Robert S. Kerr Dam was originally issued a FERC license in 1955. FERC issued a new operating license, FERC License #2183, on August 9, 2006.

Figure 4 – Robert S. Kerr Dam

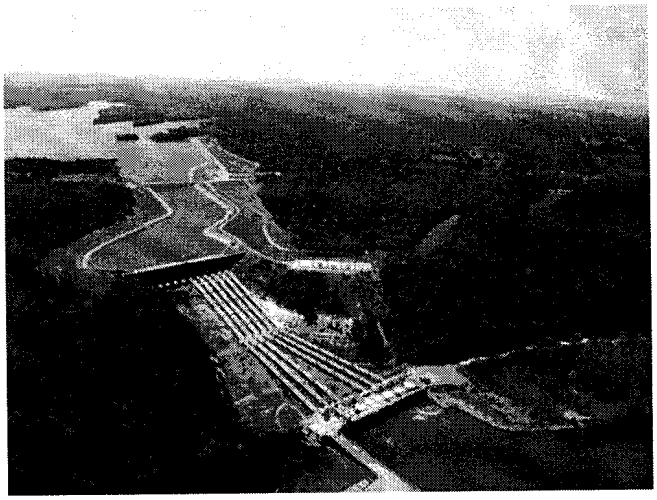


In 2007, GRDA began a major upgrade of the units at Kerr Dam which is projected to be completed in 2012. It is expected to increase capacity approximately 15%.[8]

[8] "GRDA plans major upgrade of 108-MW Markham Ferry", *Hydro Review*, March 2007, p. 79.

2.3.1.3 Salina Pumped Storage Project

Figure 5 – Salina Pumped Storage Project



The Salina Pumped Storage Project (Salina) is along the Saline Creek, southeast of Salina, Oklahoma. It is a 260 MW plant operating under FERC license #2524 issued January 3, 1966. Salina consists of an upper storage reservoir, a concrete-lined canal connecting the upper reservoir to the forebay, a forebay section, six penstocks connecting the forebay to the powerhouse, and the powerhouse, which is located 250-feet below the forebay on Lake Hudson. When water is released from the upper storage reservoir (typically during peak load periods), Salina functions as a generator and produces power and energy that GRDA uses to meet its power supply obligations. At other times (typically during off-peak periods), water is pumped from Lake Hudson to the upper storage reservoir, and Salina functions as a load that must be served with energy from other GRDA resources. The generation-pumpback cycle efficiency is approximately 60%, so Salina is typically operated only when the difference in the value of on-peak and off-peak energy is sufficiently large to more than offset the cycle efficiency.

Salina was designed to be completed in four stages of 130 MW each in three-year intervals. The first stage went on-line in May 1968, and the second went on-line in May 1971. Stages 3 and 4 were later determined not to be economically justified and no plans to add these stages are currently being studied.

2.3.1.4 Coal-Fired Complex

Figure 6 – Coal-Fired Complex

GRDA's Coal-Fired Complex (CFC) consists of a 490-MW generating unit, GRDA 1, and a 520-MW generating unit, GRDA 2. The power plant site encompasses an area of approximately 1,245 acres. Facilities include a river intake system to supply water to the site; coal receiving, storage, and processing facilities; cooling towers; and solid waste storage area.

GRDA 1 utilizes Wyoming coal and was placed into commercial operation in January 1982. It was designed to accommodate a second unit.

GRDA 2 was placed into commercial operation in April 1986. GRDA is a 62 percent owner of GRDA 2. KAMO Electric Cooperative, Inc. (KAMO), a generation and transmission cooperative also headquartered in Vinita, owns the remaining 38 percent. GRDA 2 was designed to burn a mix of Wyoming and Oklahoma coal.

GRDA 1 and GRDA 2 share several common facilities, including coal handling facilities, control building, service building, warehouse, and water systems.

2.3.2 Power Production

The annual gross and net generation for generating facilities at Pensacola Dam, Markham Ferry Hydropower Project at Robert S. Kerr Dam, Salina Pumped-Storage Project and the Coal-Fired Complex, for the three-year period ended December 31, 2007, is shown in Table 5. The net generation is the amount of energy available after deducting station service required, KAMO's participation in GRDA 2, and the Salina pumping load.

Table 5 – GRDA Net Generation (MWh)[9]

	Year Ending December 31		
	2005	**2006**	**2007**
Total Generation (MWh)			
Coal Fired Complex			
GRDA 1	3,502,731	3,400,372	3,588,394
GRDA 2	3,537,725	3,156,883	3,859,899
Total Coal Generation	7,040,456	6,557,255	7,448,293
Hydroelectric			
Pensacola	453,886	104,498	537,158
Kerr	237,819	41,028	275,796
Salina	278,248	201,902	269,680
Total Hydro Generation	969,953	347,428	1,082,634
Total Generation	8,010,409	6,904,683	8,530,927
Reductions			
Station Service (All)	427,630	412,882	445,781
KAMO Participation	1,257,429	1,121,344	1,379,125
Total Reductions	1,685,059	1,534,226	1,824,906
GRDA Net Generation	6,325,350	5,370,457	6,706,021

GRDA sells power and energy mostly under long-term firm contracts to industrial and commercial customers, electric cooperatives, municipal utilities, and joint action agencies. In addition, GRDA makes unit contingent sales to OMPA and spot market sales to a number of wholesale customers. Annual sales of energy for the three-year period ended December 31, 2007, are shown in Table 6 below.

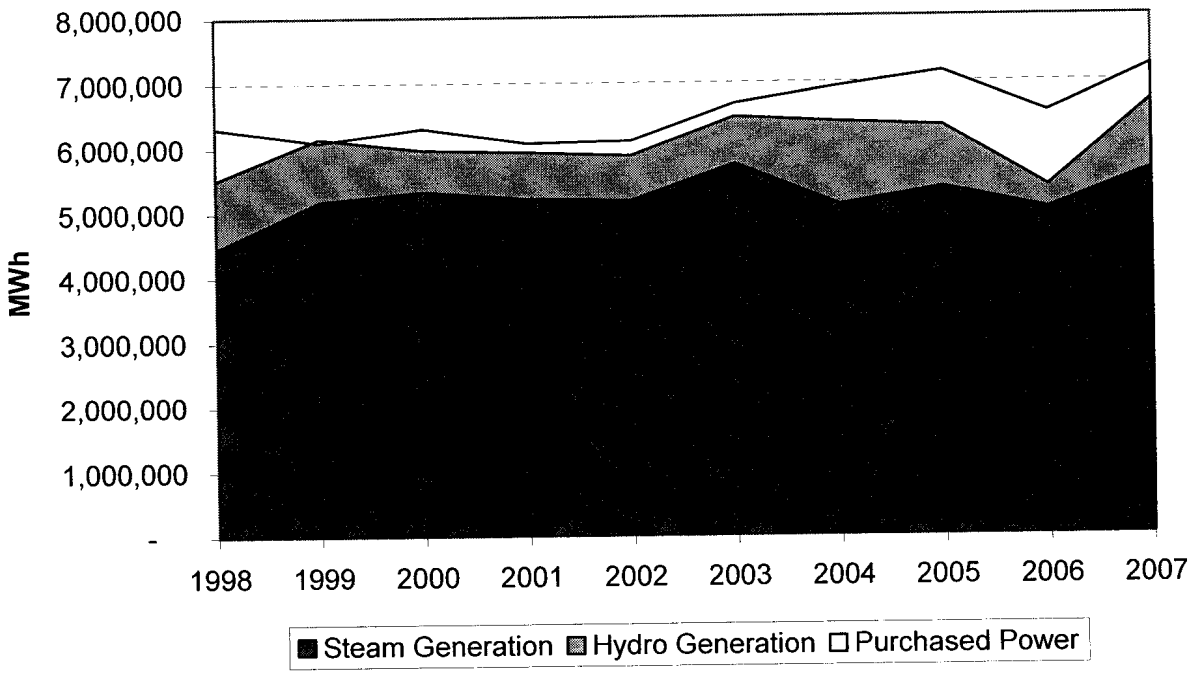
[9] Provided by GRDA

Table 6 – Historical Sales by Customer Group[10]

	MWh Year Ending December 31			Percent of Annual Total Year Ending December 31		
	2005	2006	2007	2005	2006	2007
Municipal	3,140,142	2,990,548	3,068,267	46.9%	49.0%	46.0%
Cooperative	555,078	583,181	587,543	8.3%	9.6%	8.8%
Industrial and Comm.	638,268	650,148	668,840	9.5%	10.7%	10.0%
Other	155,001	141,144	176,206	2.3%	2.3%	2.6%
Subtotal	4,488,489	4,365,021	4,500,856	67.0%	71.6%	67.4%
Off-System Firm	1,866,390	1,642,752	1,625,919	27.9%	26.9%	24.4%
Total Contract Sales	6,354,879	6,007,773	6,126,775	94.8%	98.5%	91.8%
Off-System Spot	346,451	90,254	547,964	5.2%	1.5%	8.2%
Total Sales	6,701,330	6,098,027	6,674,739	100.0%	100.0%	100.0%

GRDA's historical energy supply for the previous ten years is shown in Figure 7. In general, GRDA's purchased power is inversely related to its hydro production. This is particularly noticeable in 2006 when GRDA's hydroelectric generation was limited due to drought conditions. GRDA's purchased power has been generally increasing in recent years due to growth in the load served by GRDA.

Figure 7 – Historical Energy Resources (MWh)[11]



2.3.3 Power Delivery

GRDA owns and operates 1,288 miles of transmission line with voltages ranging from 69 kV to 345 kV, as shown in Table 7. GRDA expended approximately $8 million reconstructing transmission lines damaged

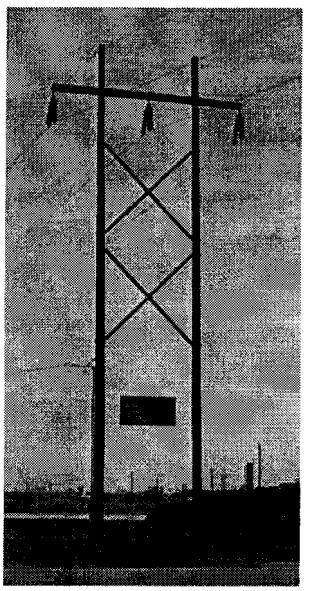
[10] Historical Sales by Customer Group (MWh), GRDA *2007 Comprehensive Annual Financial Report*, p. 58.
[11] Historical Energy Resources (MWh), GRDA *2007 Comprehensive Annual Financial Report*, p. 58.

as a result of two Oklahoma ice storms in 2007. Most of the damage occurred during the January 2007 storm.

Table 7 – Miles of Transmission Line

Operating Voltage	345 kV	161 kV	138 kV	115 kV	69 kV	Total
Miles	111	325	101	40	711	1,288

Figure 8 – GRDA Transmission Line



The transmission network owned by GRDA consists of transmission lines, switching stations, and substations at the generating plants as well as its points of delivery for its customers.

GRDA also maintains interconnections with seven other utilities: American Electric Power (AEP), Associated Electric Cooperative, Inc., Empire District Electric Company, KAMO Power, OG&E Electric Services, Southwestern Power Administration, and Western Farmers Electric Cooperative.

GRDA is also an active participant in committees of the Southwest Power Pool (SPP). This allows GRDA to be an active stakeholder in the development of rules and policies for the transmission market. GRDA's CEO Kevin Easley serves on the SPP Corporate Governance, Board of Directors/Members Committee and Strategic Planning Committees.

2.3.4 Resource Planning

In recent years, GRDA has purchased capacity and energy to satisfy its load obligations and reserve requirements.

On January 30, 2007, GRDA issued a request for proposals for 100 to 200 MW of intermediate or peaking power during the Summer of 2007.[12] The result of the solicitation and subsequent evaluation of proposals was a contract with Westar Energy for 150 MW of capacity and energy from Kelson Holding's Redbud Power Plant for the period from June 1, 2007 through May 31, 2008. Westar Energy markets power and energy from the Redbud Power Plant, and provides certain other services, pursuant to an agreement between Westar Energy and the owner. That agreement is discussed further in Section 4.7. In May 2008, GRDA entered into another agreement with Westar Energy for 150 MW of capacity and energy from the plant for the period from June 1, 2008 through May 31, 2013. That transaction terminates immediately upon closing of any direct or indirect sale of all or any portion of Redbud to GRDA.

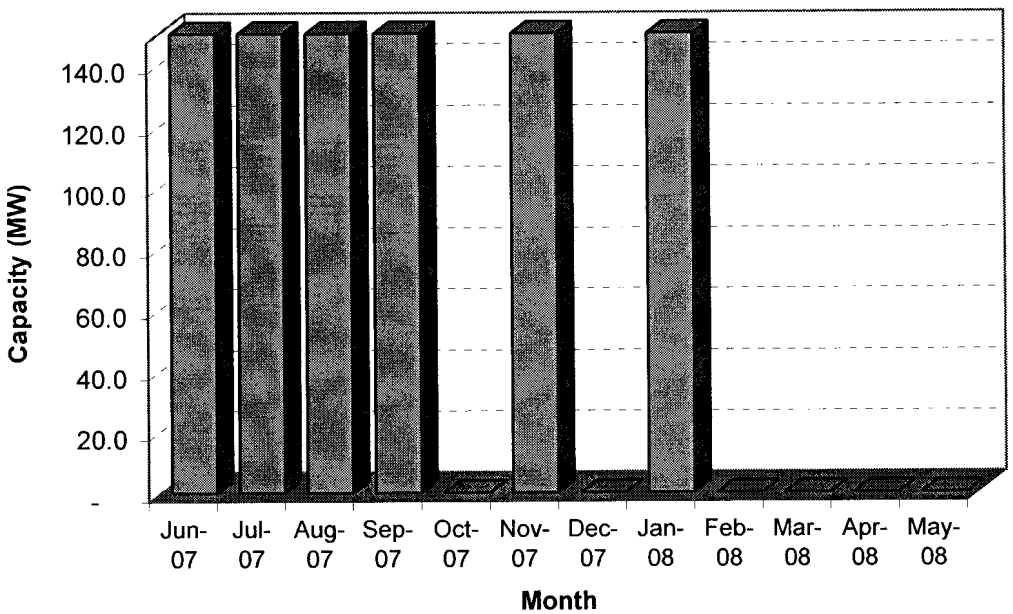
GRDA's evaluation of the proposals received in response to the January 30, 2007 solicitation was significantly influenced by considerations of the availability of firm transmission service for delivery of power from Redbud to the GRDA system. Transmission constraints have been a concern for GRDA in

[12] *SNL Interactive*. "Oklahoma utility seeks up to 200 MW of intermediate, peaking power", by Wayne Barber. January 30, 2007 5:11 PM ET

obtaining power from additional resources. In conjunction with the initial 150 MW purchase from Westar Energy, GRDA sought and obtained 150 MW of long-term firm transmission service between Redbud and the GRDA system from SPP for the same one-year term as the purchase. GRDA exercised its rollover rights for that long-term firm transmission service that extend its availability for the term of the second 150 MW purchase from Westar Energy. GRDA intends to again exercise its rollover rights for the 150 MW of long-term firm transmission service in conjunction with GRDA's purchase of its ownership interest in Redbud and the associated termination of the 150 MW purchase from Westar Energy. The expected future availability of 150 MW of long-term firm transmission service from Redbud to the GRDA system was an important consideration in GRDA's decision to purchase an ownership interest in Redbud. GRDA's transmission service arrangements for Redbud are discussed further in Section 5.

GRDA used the Redbud contract to meet its Summer peak demand in 2007. GRDA's purchases from Redbud at the time of its monthly peak demands are shown in Figure 9. As shown, GRDA received 150 MW from Redbud during its peak hour in each of the four Summer months. For the twelve months ended May 2008, GRDA utilized Redbud to meet a portion of its system peak during six months, including all four Summer months. Above normal rainfall resulting in high lake levels and higher-than-average energy production from GRDA's hydroelectric facilities has reduced the need for Redbud in 2008, and allowed GRDA to sell more energy in the short-term market. However, GRDA's generating facilities were not adequate to meet its projected Summer peak demand for 2008 and provide GRDA's target 12% reserve margin. The 150 MW purchase from Westar Energy eliminated that deficiency.

Figure 9 – Redbud Purchases during System Peak



Section 3 Redbud Project Description

3.1 Project Description

The Redbud plant was developed by InterGen, and began commercial operation in May 2004. According to press releases, the plant began construction in August 2001 and cost $740 million.[13] InterGen was a

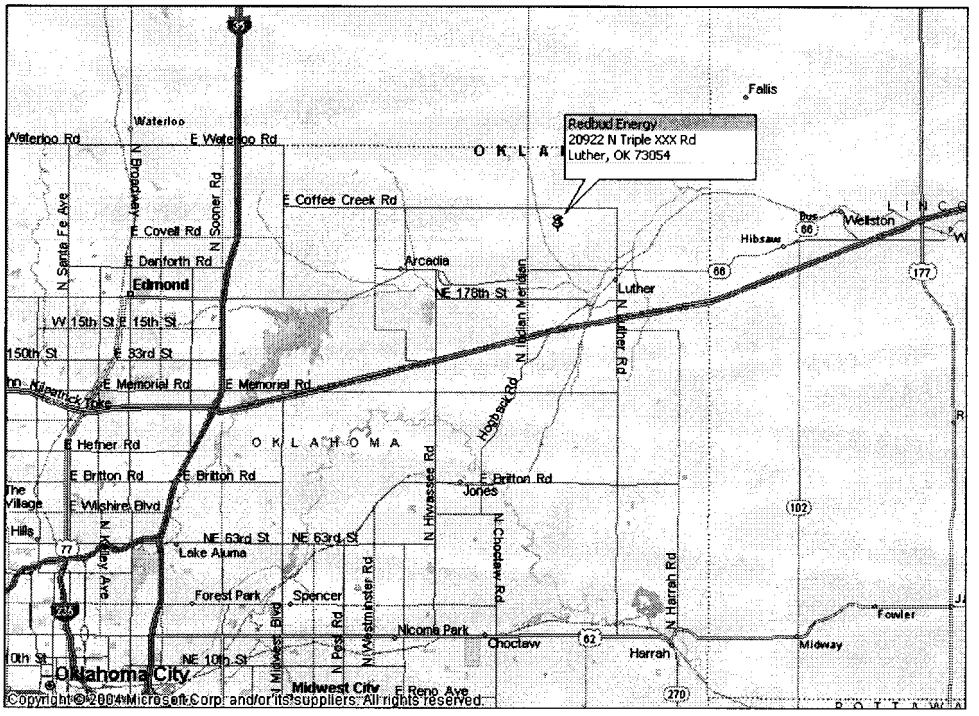
[13] "InterGen North America to install generators in OK facility". *SNL Interactive*, February 21, 2002.

joint venture between subsidiaries of Royal Dutch/Shell Group (68%) and Bechtel Group, Inc. (32%). Redbud was among several US assets owned by InterGen that were sold in 2005 to Kelson.

After a competitive sale process, on January 21, 2008, Kelson Holdings agreed to sell the 1,230-MW, natural gas-fired power plant for a total of $852 million to OG&E, Grand River Dam Authority and the Oklahoma Municipal Power Authority. Subject to various regulatory approvals and closing conditions, OG&E will operate the plant and own a 51% share, while Grand River Dam Authority will acquire a 36% stake and Oklahoma Municipal Power Authority will acquire a 13% interest in the Redbud facility.[14]

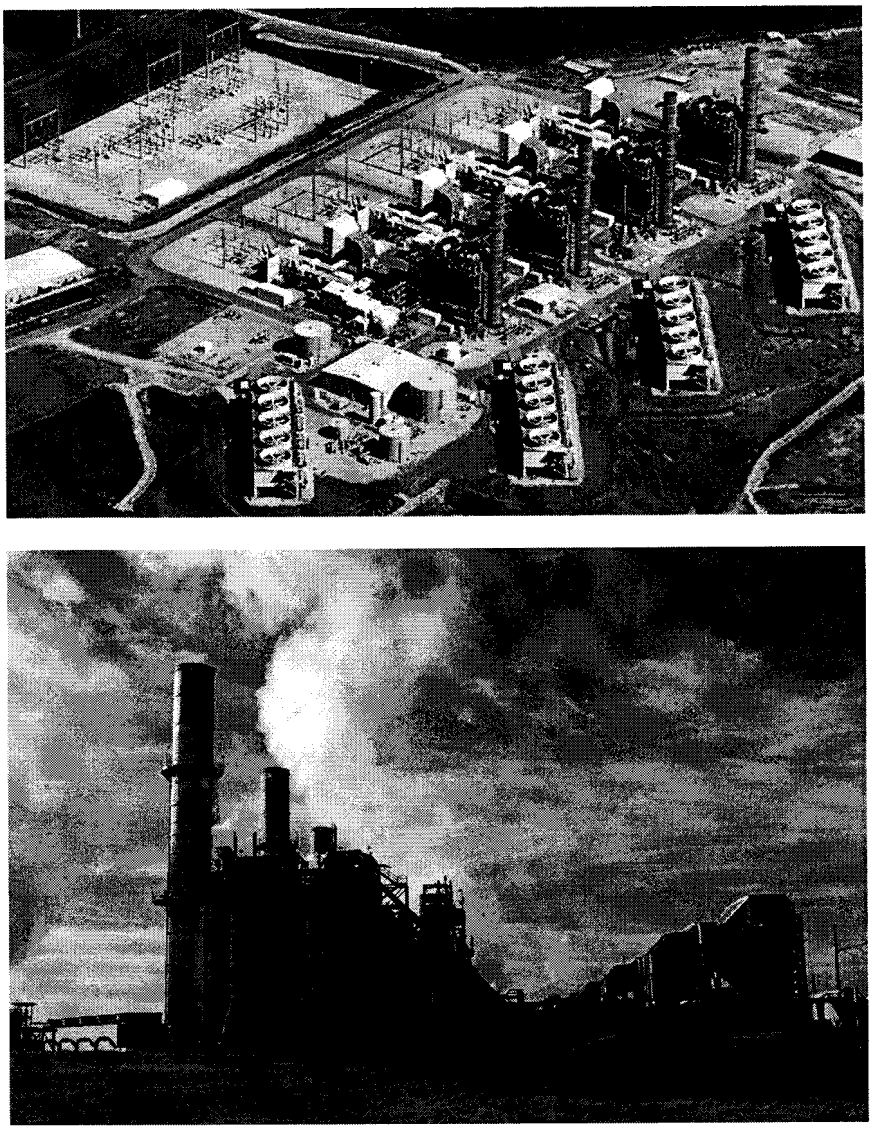
Redbud is a nominal 1,230 MW gas-fired combined cycle plant located at 20922 N. Triple XXX Road, Luther, Oklahoma. It is northeast of Oklahoma City and east of Edmond along Route 66, as shown in Figure 10. Redbud is situated on a 320-acre site, of which 80 acres are used for the plant footprint.

Figure 10 – Location Map of Redbud



[14] "Oklahoma utilities to acquire natural gas plant from Kelson Holdings" by Kinjal Sathwara. *SNL Interactive*, January 22, 2008.

Figure 11 – Redbud Power Plant



As discussed below, Redbud uses proven technology, design and equipment and is expected to have reasonable availability and reliability for the foreseeable future.

3.2 Plant Design and Technology

The plant consists of four units. Each unit includes a GE 7FA combustion turbine, a Foster Wheeler heat recovery steam generator (HRSG), and an Alstom steam turbine.

Specifically, the plant consists of four 1x1x1 combined cycle units:

1. Gas Turbines: GE PG7241(FA)
2. Gas Turbine Generators: GE/Hitachi Hydrogen Cooled
3. HRSG: Foster Wheeler with duct firing capability;

HRSG Section	Steam Pressure / Temperature PSIG/F	Steam Produced lbs/hour
High Pressure	2,005 / 1,055	828,000
Intermediate Pressure	595 / 1,055	54,000
Low Pressure	55 / Saturated	69,000

4. Steam Turbines: ABB-Alstom Type STF-15
5. Steam Turbine Generators: Alstom 2-pole, 187.65 MVA, 159.503 MW at 0.85 PF, air cooled
6. Condensers: Alstom Power, 2 pass
7. Cooling Towers: Pyschrometric Systems Inc. (PSI), counter-flow, 5 cells per unit; Single Speed Fans, 200 HP each

The gas turbines burn natural gas only, with no fuel oil backup. The gas turbines are equipped with dry low-NO_x burners and include an evaporative cooling system to increase output on hot Summer days. The HRSGs are equipped with natural gas duct burners for supplemental power production, and include a selective catalytic reduction (SCR) system for NO_x control.

The plant's maximum capacity and efficiency was tested by OG&E in January 2008. The results are shown in Table 8.

Table 8 – Redbud Maximum Capacity and Efficiency Test Results[15]

	Expected	Tested	
Output			
Unfired at 42.5 F	981.8 MW	1,010.0 MW	**Passed by 3.1%**
Fired at 49.1 F	1,233.2 MW	1,271.5 MW	**Passed by 2.9%**
Heat Rate (Efficiency)			
HHV, dry basis			
Unfired at 42.5 F	7,093.3 Btu/kWh	7,006.6 Btu/kWh	**Passed by 1.2%**
Fired at 49.1 F	7,461.2 Btu/kWh	7,400.3 Btu/kWh	**Passed by 0.8%**

Each 1x1x1 operates as a separate unit with minimal shared systems or components. Additionally, the facility design margins have proven to be adequate for all four units to concurrently achieve and maintain maximum expected output.

Additional structures include an office/shops facility, a warehouse, and a water treatment building.

Each unit is capable of load ramp rates of 5 to 6 MW/minute from minimum load to full unfired output and of 2 to 3 MW/minute when duct firing to full unit output.

Unit startups to full duct fired output require from 2 to 3+ hours, depending on the duration of the unit shutdown. Startup procedures and monitoring equipment are used to assure compliance with manufacturer's recommendations.

[15] *Combined Cycle Max Capacity Performance Test Report of Redbud Station (Project Forest) for OGE by Mechanical Dynamics & Analysis, LTD.* January 16, 2008. p. 3.

3.3 Fuel Supply

The Facility is interconnected to ONEOK Gas Transportation, L.L.C. (OGT) through a lateral pipeline. Natural gas is delivered to an on-site gas metering and regulation station, which regulates gas pressure.

OGT and Redbud signed a Transportation Service Agreement (TSA) for firm intrastate transportation on May 15, 2001. The TSA terminates August 31, 2009; however, it may be extended until August 31, 2013 at Redbud's sole discretion. The TSA provides Redbud with access to numerous potential suppliers of natural gas.

The maximum daily quantities (MDQ) of natural gas to be delivered to Redbud under the TSA are shown in Table 9. Discussions are underway with OGT that could result in an increase in the MDQ to 200,000 MMBtu/Day for each month of the remaining term of the TSA. The fuel supply and transportation arrangements are discussed further in Section 6.

Table 9 – Maximum Daily Quantities

Period	MMBtu/Day
June through September	200,000
October, November, March, April and May	100,000
December through February	150,000

3.4 Water Supply, Storage, Treatment and Discharge

Process, or gray, water is supplied by the Oklahoma City Water Utility Trust (OCWUT) from the nearby North Canadian Wastewater Treatment Plant through an agreement dated June 6, 2000. The agreement requires the city to provide a maximum quantity of 11 million gallons per day (MGD) to Redbud. The 11 MGD has proven to be adequate to support continuous full output operation of the plant. The average daily flow at the treatment plant is 52 MGD.

There are two on-site raw water storage tanks. One holds as much as 250,000 gallons and the other holds as much as 800,000 gallons. Cooling tower makeup, gas turbine evaporative cooler makeup and fire protection water storage is provided by these tanks. The plant's demineralizer and associated 400,000 gallon storage tank provide process water makeup.

The plant's sanitary water is treated on-site and then combined with process waste water and returned to the North Canadian Wastewater Treatment Plant.

3.5 Transmission and Power Delivery

Redbud is interconnected to the OG&E system pursuant to a November 27, 2000 Interconnection Agreement (IA). The IA is for a term of 30 years but automatically renews from year to year unless cancelled by either party.

The Redbud switchyard has a double circuit connection to OG&E's 345 kV Arcadia substation and a single circuit connection to AEP's 345 kV Riverside substation. The switchyard is owned and operated by Redbud. The transmission lines are owned and operated by OG&E.

Redbud entered into the Arcadia Substation Upgrade Agreement with OG&E in January 2006 whereby OG&E upgraded the Arcadia Substation to increase the maximum amount of power that Redbud is permitted to deliver to the OG&E system. The upgrade was completed in the 4th quarter of 2006. Prior to the upgrade, Redbud was not permitted to operate at a level greater than 900 MW in 2004 and 650 MW in 2005. After the upgrade, the allowed maximum increased to 1,436 MW in the Summer, which has generally eliminated the interconnection restrictions for Redbud.

3.6 Licenses, Permits and Approvals

All required environmental permits for Redbud are current with one modification in the final public notice phase (see Section 3.7). Active permits are listed in Table 10 below.

Table 10 – Key Permits or Approvals Necessary for Operation

Permit or Approval	Current Status
Air Permit to Construct and Operate	PSD Permit No. 2000-090-C issued 8/15/01. Modified (M-5) 6/30/05.
Title V Permit to Operate	Permit No. 2003-260-TV issued by Oklahoma Department of Environmental Quality (ODEQ) 10/04/06. Expires 10/04/11.
Title VI Acid Rain Permit	Included in Title V Permit.
NPDES Permit	Not applicable. Wastewater is discharged back to the North Canadian Wastewater Treatment Plant.
Stormwater General NPDES Permit	"No Exposure Certification" No. WQNEC0528 issued by ODEQ 9/14/06. Expires 9/14/11.
Water Pollution Control Pretreatment Permit	Industrial User Permit No. 3711-FC issued by Oklahoma City Department of Water and Wastewater Utilities 5/06/05. Permit expires 12/31/08.
Water Supply	Water Supply Agreement (Gray Water) between OCWUT and Redbud Energy, LP effective 7/03/01. Expires 7/03/21.
Hazardous Waste Identification Number	ID No. OKR000017681 acknowledged by ODEQ 5/22/02. (Notification of Regulated Waste Activity)

3.7 Summary of Environmental Related Issues

The plant includes a continuous emissions monitoring system (CEMS) to continuously monitor and record air emissions of NO_x, CO and SO_2.

The startup/shutdown procedures have been established, and shown to comply with the permitted emissions limitations.

The original air permit application in 2000 included an incorrect drift factor, which resulted in an understatement of the particulate matter of less than 10 micron size (PM_{10}) emissions from the four cooling towers. On April 24, 2007, Redbud made a self-disclosure of the violation. The excess emissions have occurred since Redbud began operating, and are continuing to occur.

On July 12, 2007, Redbud and the ODEQ signed a Settlement Consent Order No. 07-254 (Consent Order) which superseded and closed all allegations of non-compliance associated with the self-reported violation. Pursuant to the Consent Order, interim PM_{10} emission limits were established that increased the limit for the four cooling towers and reduced the limits for PM_{10} by the combustion turbines and duct burners.

Table 11 – PM_{10} Emission Limits

	Units of Measure	Original	Revised Permit	Tested
Cooling Towers – each	pounds / hour **tons / year**	3.17 **13.76**	12.68 **55.50**	N/A
Combustion Turbines and Duct Burners – each unit	pounds / hour **tons / year**	111.6 **488.8**	102.1 **447.1**	11.8 **51.58**

Overall, the interim PM_{10} emission limits for the total plant are unchanged from the total in the original air permit, with the increase in the limit for the cooling towers offset by the reduction in the limit for the combustion turbines.

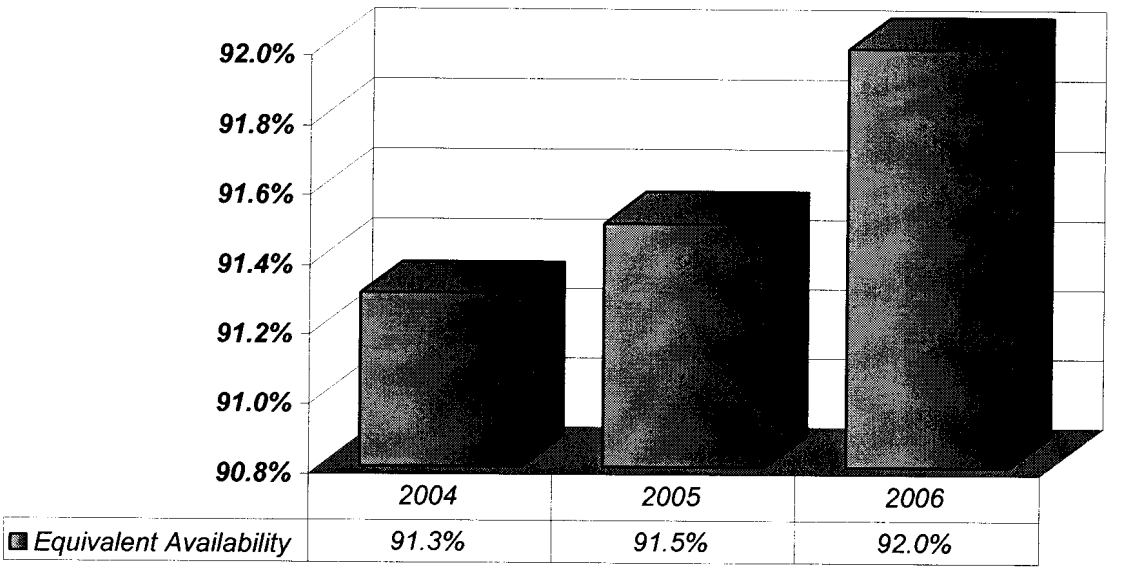
On August 28, 2007, Redbud submitted an application for modification of the operating permit for the plant. The application reflected the same PM_{10} emission limits as the interim limits established pursuant to the Consent Order. The modification is considered significant, and therefore subject to public review and comment.

On March 4, 2008, Redbud published notice in a local newspaper of the application. ODEQ issued a Draft Permit dated May 22, 2008, modifying the PM_{10} emission limits consistent with the application. For a period of 30 days starting on June 19, 2008, the Draft Permit was made available for public review at ODEQ's main office and on the Air Quality section of the ODEQ web site The Draft Permit is concurrently being reviewed by the Environmental Protection Agency (EPA) for a period of 45 days. In the event that there are no public objections to the Draft Permit and the EPA does not raise any issues, ODEQ is expected to finalize the Draft Permit and close the Consent Order. Otherwise, further action may be required and receipt of the modified permit could be delayed. Given that the permit modification does not increase the total PM_{10} emission limits for Redbud, GRDA does not expect the permit modification to be rejected, but cannot rule out that possibility.

3.8 Historical Plant Performance

As shown in Figure 12, Redbud has historically been available over 91% of the time since it began commercial operations. Redbud has operated at a lower capacity factor, shown in Figure 13, due to its status as a merchant generator.

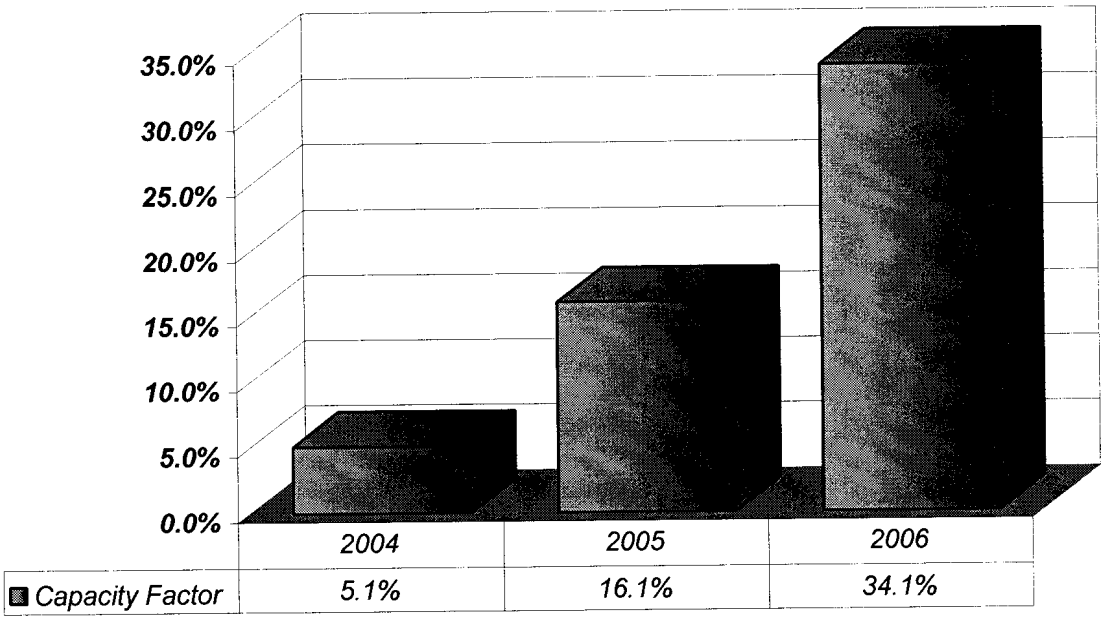
Figure 12 – Historical Equivalent Availability[16]



Equivalent availability represents the amount of capacity on average during all hours of the year that was available from Redbud, whether actually operated or not, but excluding any capacity not available due to planned or unplanned outages or operating limitations, as a percentage of the rated, or maximum, capacity. Equivalent availability is a measure of the reliability of the facility.

[16] *Redbud Overview for Kelson Energy*; Kelson Finance LLC $1,510,000,000 Senior Secured Credit Facilities; Kelson Energy, Inc. $160,000,000 Holding Company Term Loan. February 2007. p. VIII-3.

Figure 13 – Historical Capacity Factor[17]



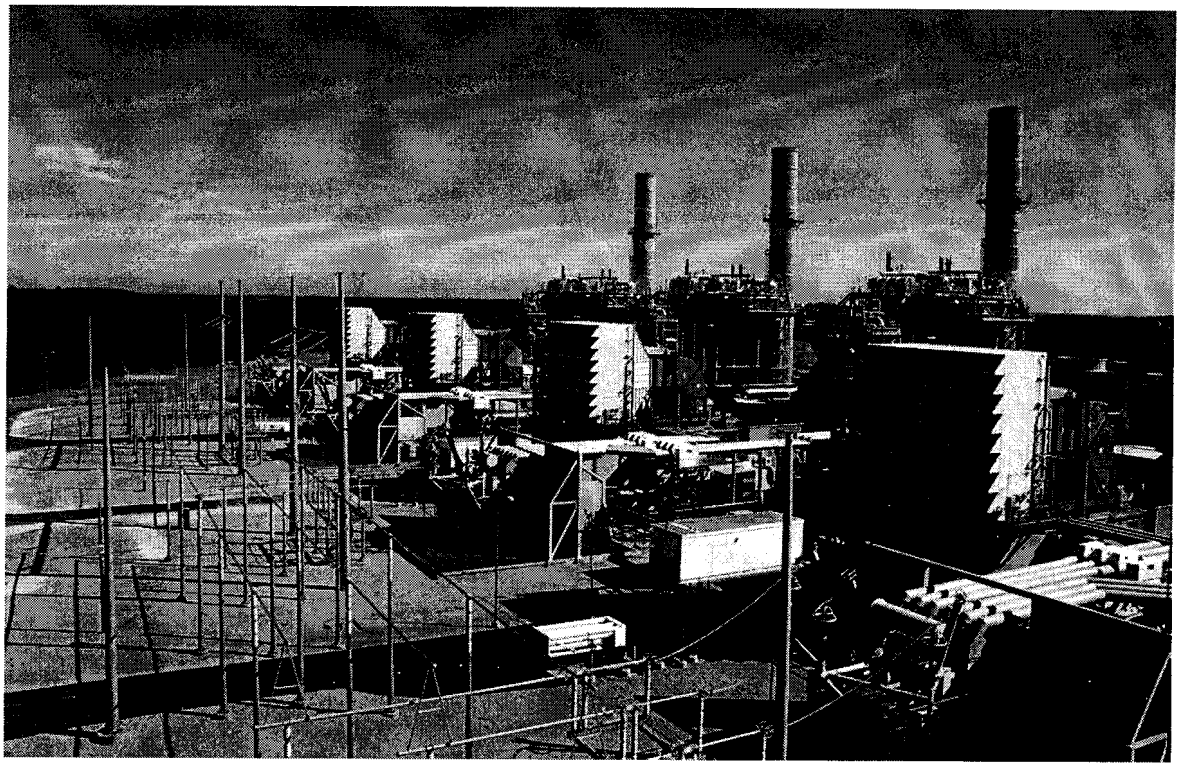
Capacity factor represents the amount of energy on average during all hours of the year that was actually produced as a percentage of the maximum amount if energy that could have been produced if Redbud was operated at its rated, or maximum, capacity in all hours of the year. Capacity factor is a measure of the extent to which the facility was actually operated.

3.9 Expected Useful Life

Redbud consists of four units, each of which includes a GE7FA combustion turbine, a Foster Wheeler HRSG, and an Alstom steam turbine. With the maturing of combustion turbine technology and the implementation of the Combustion Inspection/Hot Gas Path Inspection/Major Overhaul maintenance cycle, the units are now expected to be capable of operating for 30-40 years, although significant life extension work will likely be required. The HRSGs and steam turbines will likely require significant work within 20-30 years of commercial operation. A full plant evaluation will need to be undertaken, typically around the 20th anniversary of commercial operation, to determine the work required to achieve a 30-40 year life.

[17] *Redbud Overview for Kelson Energy*; Kelson Finance LLC $1,510,000,000 Senior Secured Credit Facilities; Kelson Energy, Inc. $160,000,000 Holding Company Term Loan. February 2007. p. VIII-3.

Figure 14 – Redbud Power Plant



Section 4 Redbud Project Agreements and Operation

OG&E is expected to acquire 100% of the partnership interests of Redbud Energy, LP, from Redbud Energy I, LLC, Redbud Energy II, LLC, and Redbud Energy III, LLC pursuant to the terms and conditions of the Purchase and Sale Agreement (PSA), dated January 21, 2008. Immediately thereafter, OG&E is expected to dissolve the limited partnership and sell undivided interests in the assets to GRDA and OMPA pursuant to the Asset Purchase Agreement (APA), dated January 21, 2008. OG&E, GRDA and OMPA will own the facility as tenants in common with interests of 51%, 36%, and 13%, respectively. OG&E will serve as the Operations Manager for Redbud pursuant to the Ownership and Operating Agreement (O&O), dated January 21, 2008.

As discussed below, these agreements are sufficient to provide effective operation and maintenance of Redbud throughout the term of the bonds, provided that the agreements remain in effect. However, GUERNSEY is not providing an opinion as to the legality or enforceability of the agreements.

4.1 Site-Related Agreements

Redbud has an agreement with the Oklahoma City Water Utility Trust and the City of Oklahoma City (the Sellers) under which the Sellers provide up to 11 million gallons per day of treated effluent to Redbud for cooling water. The 11 million gallons per day has proven to be adequate to support continuous full output operation of the plant.

4.2 Ownership and Operating Agreement

OG&E, GRDA and OMPA entered into the Ownership and Operating Agreement which provides for the joint operation of Redbud, with OG&E functioning as the Operations Manager for all three parties, and which provides each party with rights to schedule its share of Redbud and provides for an allocation of

costs and revenues among the parties and the determination of each owner's fuel supply obligations. The parties are also working on an agreement that will provide the details regarding scheduling and cost and revenue allocation and fuel supply obligations. That agreement is expected to be completed before closing on the purchase transaction.

4.3 O&M Agreement

Redbud has a Long-Term Parts and Service Agreement ("LTPSA") with General Electric International, Inc. ("GE") under which GE provides certain maintenance services for the generating facilities at the plant, maintains an inventory of certain spare parts, and provides an availability guarantee for the plant. The buyers have indicated that they desire to maintain the LTPSA after closing on the purchase transaction. The LTPSA was premised upon the existence of a fleet for long-term maintenance, which may not be the case after closing. It is not known how the terms and conditions under the LTPSA might change after closing.

4.4 Gas Supply Agreements

Redbud has an agreement with OGT under which OGT provides gas transportation and related service for delivery of natural gas to the plant. GRDA is in the process of developing fuel supply arrangements for its share of the fuel requirements for the plant.

4.5 Electric Interconnection and Transmission Agreements

Redbud has an interconnection agreement with OG&E under which Redbud is interconnected and allowed to operate in parallel with the OG&E system. That agreement is discussed in Section 5.

4.6 Daily Operation

Under the O&O Agreement, OG&E will serve as the Operation Manager of Redbud for all three owners. OG&E has operated the McClain Energy Facility, a combined cycle plant jointly owned with OMPA, since July 2004. OG&E's experience with gas turbines dates back to the 1950s.

OG&E has indicated its desire to hire many of the existing plant personnel at Redbud from North American Energy Services (NAES), the current operator of the plant, which is permitted under the Operation and Maintenance Agreement (O&M Agreement) between Redbud and NAES (under which NAES currently operates Redbud for the current owner).

OG&E's experience with similar generating facilities, the planned hiring of existing plant personnel by OG&E and resulting knowledge and experience, and the retention of the LTPSA with GE provide reasonable assurance that the proposed organization and staffing will provide the technical expertise and capabilities for OG&E to operate Redbud consistent with industry practice.

4.7 Energy Management Agreement

Redbud has an Energy Management Agreement with Westar under which Westar markets the output of Redbud for the current owners. The agreement will not be transferred to the buyers of the plant.

Section 5 Adequacy of Transmission

Redbud is directly interconnected with the OG&E system through a double circuit 345 kV connection to OG&E's Arcadia Substation and with the AEP system through a single circuit connection to AEP's Riverside Substation. Both OG&E and AEP (as well as many other electric utilities, including GRDA) are

members of SPP and offer transmission service through the Open Access Transmission Tariff (OATT) of SPP. GRDA obtains transmission service under SPP's OATT.

Redbud has an IA with OG&E that was executed in August 2001. The IA allows Redbud to operate in parallel with the OG&E system, provided that Redbud complies with its obligations under the IA, but does not provide for any transmission service from Redbud to a potential purchaser. The IA contemplates a maximum output from Redbud of 1,164 MW in the Summer and 1,273 MW in the Winter. The IA states that the maximum Summer capacity of OG&E's system at the OG&E/Redbud interconnection is 1,195 MVA at rated voltage (345 kV). That is approximately the same as the expected Summer maximum capability of Redbud operating at a 100% power factor. The IA should not impose significant operating limits on Redbud under normal conditions.

GRDA must obtain transmission service from SPP under its OATT to deliver output from Redbud to the GRDA system or to third-party purchasers from GRDA. In order for GRDA to rely on Redbud to serve a portion of GRDA's power requirements, GRDA needs long-term firm transmission service under the SPP OATT from Redbud to the GRDA system. GRDA purchases Network Integration Transmission Service from SPP under its OATT. For GRDA to obtain long-term firm transmission service from Redbud to the GRDA system, GRDA's share of Redbud must be designated as a Network Resource under the SPP OATT. Such designation requires a finding by SPP that the regional transmission system is capable of transmitting the capacity from Redbud to the GRDA system under a wide range of potential system operating conditions, including various system planning contingencies such as major transmission line and generator outages. Such a finding may be premised on the installation of transmission system upgrades, in which case the Network Resource designation will be effective upon completion of the specified transmission system upgrades. In that case, GRDA would be required to agree to pay all or part of the cost of the required upgrades, and the requested service would not be available until the required upgrades were installed, which could be several years in the future.

GRDA currently purchases 150 MW of capacity and associated energy from Redbud. The purchase has been designated as a Network Resource under the SPP OATT, so GRDA currently has 150 MW of firm transmission service from Redbud to the GRDA system. The SPP OATT provides transmission customers, including GRDA, with "rollover rights," which enable the transmission customer to retain firm transmission service for a Network Resource if the associated purchase contract is extended. GRDA originally entered into a one-year purchase agreement for 150 MW from Redbud that terminated on May 31, 2008. Prior to termination of that agreement, GRDA extended its 150 MW purchase from Redbud for five additional years, so that the purchase is now scheduled to terminate on May 31, 2013. GRDA exercised its rollover rights to retain the 150 MW of firm transmission service it obtained in conjunction with the original purchase agreement from Redbud through termination of the extension agreement scheduled for 2013.

The existing 150 MW purchase agreement will terminate immediately upon closing of a sale of all or any portion of Redbud to GRDA. GRDA intends to exercise its rollover rights for the 150 MW of firm transmission service that it now has. GRDA has received verbal assurances from SPP that GRDA will retain 150 MW of firm transmission service from Redbud to the GRDA system, although the associated Network Resource will then be a portion of GRDA's ownership interest in Redbud rather than the existing purchase agreement.

GRDA's 36% ownership interest in Redbud will be substantially more than 150 MW. Based on the 1,230 MW nominal rating for Redbud, GRDA will have 443 MW of capacity from Redbud. The amount available to GRDA at any point in time could be more or less than 443 MW, depending on the operational status of the generating units and ambient conditions. In October 2007, GRDA submitted an application to SPP requesting an additional 150 MW of long-term firm transmission service form Redbud to the GRDA system. SPP included GRDA's request in SPP's aggregate study process, a process in which SPP evaluates all requests for long-term firm transmission service in a single study process. SPP initiates three such aggregate studies each year at approximate four-month intervals. Each such study is an iterative process as applicants for long-term firm transmission service withdraw until there are no further withdrawals. One study may still be in progress when another is initiated. The result of the aggregate study process is an identification of transmission upgrades that must be installed in order for SPP to provide long-term transmission service, the expected date of completion of each upgrade, an

identification of when long-term firm transmission service will be available for each service request (which depends on the timing of completion of particular upgrades that must be completed for that particular service request), and an allocation of cost responsibility for each transmission upgrade. While it is conceivable that no transmission upgrades will be required in order for GRDA to obtain the additional 150 MW of long-term firm transmission service that it requested in October 2007, that is a highly unlikely result. Interim results from the SPP aggregate study process show that transmission upgrades will be required. GRDA will not know the final date that the additional service will be available or GRDA's share of cost responsibility for transmission upgrades until the aggregate study process is completed.

In February 2008, GRDA submitted another request for additional long-term firm transmission service to SPP for 157 MW. That request brings the total existing and requested long-term firm transmission service for GRDA from Redbud to the GRDA system to 457 MW. That amount for GRDA corresponds to a total capability for Redbud of 1,269 MW. There are times when, depending on ambient conditions, GRDA's share of the capability of Redbud will exceed 457 MW. However, that will not be the case during Summer peak conditions when GRDA is more likely to need its full ownership share of the available capacity from Redbud. GRDA will not know the final date that the additional service will be available or GRDA's share of cost responsibility for transmission upgrades until the aggregate study process is completed.

In August 2008, SPP approved short-term (monthly) firm transmission service from Redbud to the GRDA system. For the period from October 1, 2008 through May 31, 2009, and from September 1 through 30, 2009, SPP approved 307 MW of monthly firm transmission service, and for the period from June 1 through August 31, 2009, SPP approved 189 MW of monthly firm transmission service. The foregoing amounts of monthly firm transmission service are in addition to the 150 MW of long-term firm transmission service from Redbud to the GRDA system that GRDA currently receives. On September 30, 2009, GRDA's firm transmission service from Redbud to the GRDA system is scheduled to revert to the 150 MW of long-term firm transmission service that GRDA currently receives. However, to the extent that the ongoing SPP aggregate study process that includes GRDA's pending request for 307 MW of additional long-term firm transmission service indicates that the requested additional service is available, GRDA agrees to pay its allocated share of the required upgrades, and the required upgrades are installed, GRDA will be allowed to purchase additional long-term form transmission service from Redbud to the GRDA system.

Until such time as GRDA obtains the additional 307 MW of long-term firm transmission service it has requested from Redbud to the GRDA system, GRDA's ability to receive its ownership share of available capacity from Redbud may be limited to 150 MW plus the varying amounts of monthly firm transmission service (and could be more limited from time to time if SPP experiences a system emergency that requires GRDA to curtail deliveries from Redbud to prevent widespread system outages). Based on GRDA's most recent load forecast and assuming a reserve margin target of 12%, the 150 MW of long-term firm transmission service that GRDA now has from Redbud to the GRDA system will allow GRDA to have sufficient Network Resources to meet its peak load requirements until 2011. GRDA will be able to designate its share of capacity from Redbud in excess of the total amount of its firm transmission service (long-term firm plus monthly firm) as a Secondary Network Resource, but the associated transmission service from SPP is non-firm (although the highest priority non-firm service). GRDA may also be able to obtain short-term firm transmission service for additional capacity from Redbud to the GRDA system from time to time, but the availability of such service will depend on system conditions at the time, and is not expected to be available with any degree of regularity.

GRDA anticipates that it will sell energy produced from Redbud to third-party purchasers. Such sales could be made on a firm or non-firm basis, on either a short-term or long-term basis. Some of the sales will require that GRDA or a third-party obtain transmission service for delivery of the energy from Redbud to the purchaser. The long-term firm transmission service that GRDA uses for delivery of energy from Redbud to the GRDA system cannot be used for delivery of energy to a third-party purchaser. Therefore, additional transmission service will be required for some third-party sales. Because of the transmission constraints that frequently exist, there will be times when there are limitations on which potential third-party purchasers can purchase energy from GRDA's share of Redbud, as well as times when GRDA is unable to make any sales from Redbud to third parties. GRDA cannot predict the extent to which transmission constraints will limit its ability to sell energy from Redbud to third parties. Depending on

many factors, including future upgrades to the transmission system, the operation of existing and future generating facilities in the region, the operational status of then-existing transmission facilities, load levels and other transactions, the limitations caused by transmission constraints may be extensive. While a range of estimates of sales of energy by GRDA from Redbud to third parties have been developed, there is a high degree of uncertainty regarding the amount of such sales that GRDA will actually be able to make.

Section 6 Gas Market Assessment

6.1 General

The Redbud facility's location places it in the center of some of North America's most prolific natural gas production facilities. To the north is the Mid-Continent market area. To the west is the Anadarko Basin. Both the Permian Basin and the San Juan Basin are southwest of Redbud's pipeline receipt points. In addition, recent discoveries of reserves in the Fort Worth, Texas area from the Barnett Shale formation are expected to provide additional sources of supply in the future.

The National Petroleum Council (NPC) estimated in 2003 North American gas reserves of 1,450 TCF of technically recoverable sources. Although 76 percent of these sources lie beneath federal lands for which current legislation forbids development, increases in natural gas prices have resulted in increased interest in development of some currently prohibited areas. NPC also estimates that the challenge for the next 25 years will be a decline in production from conventional wells. However, there is also considerable effort in developing replacement from unconventional gas supplies such as tight sands and arctic supplies from the Mackenzie Delta.

6.2 Price Forecast

Natural Gas continues to be the fuel of choice for new power generation projects in North America. While the electric industry has projected considerable need for new base load power plants, regulatory and environmental agencies in a number of states, including Oklahoma, have been reluctant to permit construction or pre-approve costly projects using coal or nuclear energy. As a result, many utilities are shelving plans for coal plants in favor of gas-fired combined cycle plants like Redbud. The resulting increase in demand for natural gas will likely keep long-term natural gas prices under pressure.

6.3 Fuel Supply Strategy

Each of the Redbud owners will be responsible for their own gas supply arrangements. OG&E is expected to function as the gas supply manager for all of the owners, but has not yet committed to that function. The gas manager will coordinate with the pipeline with regard to the operation of Redbud. GRDA is in the process of developing a fuel supply strategy.

6.4 Transportation Agreements and Infrastructure

The Redbud facility currently has a firm transportation agreement with OGT. The agreement is currently scheduled to expire on August 30, 2009, but includes an option for Redbud to renew the agreement, including prices, for five additional years. The following table shows the current MDQ for gas delivery under the OGT agreement:

Table 12 – Maximum Daily Quantities

Period	MMBtu/Day
June through September	200,000
October, November, March, April and May	100,000
December through February	150,000

OGT provides its transportation at maximum tariff rates for a 24-hour ratable take. OGT has allowed Redbud to flow its fuel supply at varying pressure providing load-following service for free, but is not obligated to do so.

The arrangements with OGT also include an interruptible storage contract to balance gas supplied.

6.5 Assessment of Transportation and/or Fuel Adequacy

The terms of the OGT agreement are reasonably attractive. OGT has expressed an interest in continuing the contract on the present terms with the buyers (OG&E, GRDA and OMPA). In order to maximize the value of the asset, the buyers have entered into discussions with OGT to increase the MDQ to 200,000 MMBtu per day year-round, which represents more than 90% of the amount of gas required to operate Redbud at its maximum output (including the duct burners) continuously. OGT has agreed in principle, but has limited the incremental capacity to receipt points on its western system. At present, we do not expect this to pose any material operating limitations for Redbud.

The buyers have assessed the storage contract and determined that it is inadequate to meet their needs. They have entered into discussions with OGT to develop a "park and loan" arrangement with the pipeline to help balance gas supplies. The contract amount for the park and loan is expected to be 50,000 MMBtu, and will be allocated among the buyers according to ownership (36%, or 18,000 MMBtu for GRDA). The proposal is on an interruptible basis.

GRDA is in the process of developing fuel supply arrangements and a risk management strategy.

Section 7 GRDA System Improvements

7.1 Description of Projects

GRDA has a number of system improvements in its plan and capital budget to be funded by the bonds. The major projects (and the estimated expenditure) include the following:

- Purchase of real property in the vicinity of the Pensacola Dam that is subject to flooding ($32 million)
- Rehabilitation and upgrade of the Markham Ferry Hydropower Project, including an increase in the rated capacity from the project ($51 million)
- Renovation of GRDA's energy control center to meet new NERC standards ($11 million)
- Install pony motors and soft start systems at Salina ($6 million)
- Construct new Tonnece Substation and transmission tap to serve growing load in the area ($8 million)
- Rebuild Feeder 105 for repair of damage from ice storms and to increase capability ($12 million)
- New 161 kV transmission line to provide increased service capability at the Mid-American Industrial Park ($10 million)

Rebuild 21.7 mile 115 kV transmission line from Pensacola to Kerr to increase capability ($8 million)

Construct new transmission and engineering building ($5 million)

Replace Unit 2 boiler panels at the Coal-Fired Complex to assure reliability ($5 million)

Three new aluminum coal unit trains to replace the existing steel unit trains ($24 million)

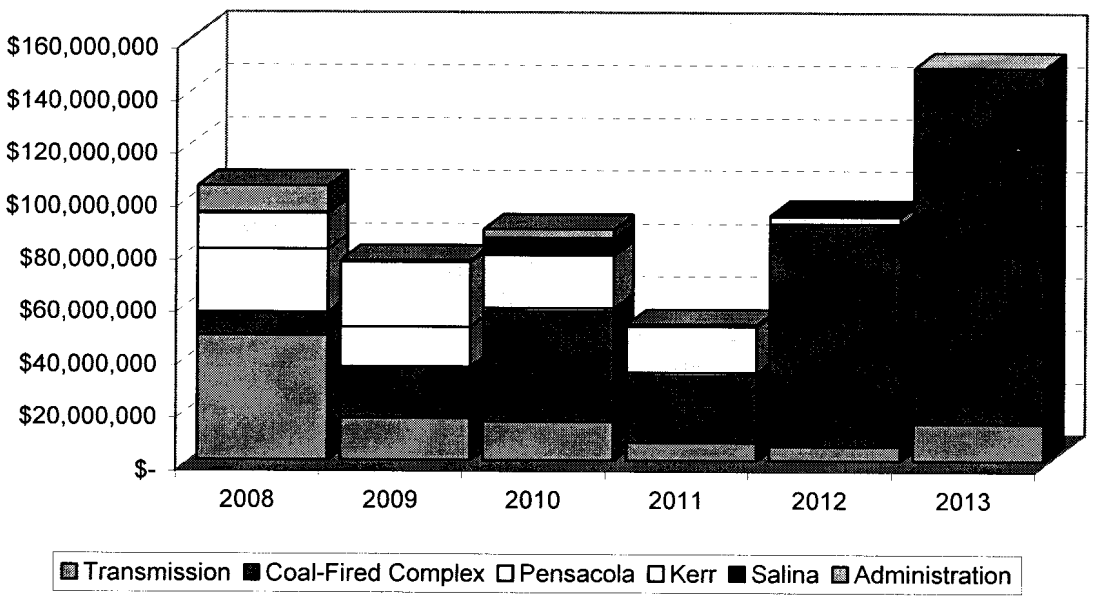
Construct an ecology office building ($5 million)

Improvements to GRDA's SCADA and microwave systems ($12 million)

7.2 Capital Expenditures

As shown in Figure 15, GRDA expects to make significant capital expenditures over the next five years to preserve and improve its system and services. The majority of the expenditures (other than those relating to the Redbud purchase) are for the Coal-Fired Complex, including environmental upgrades.

Figure 15 – Capital Improvements



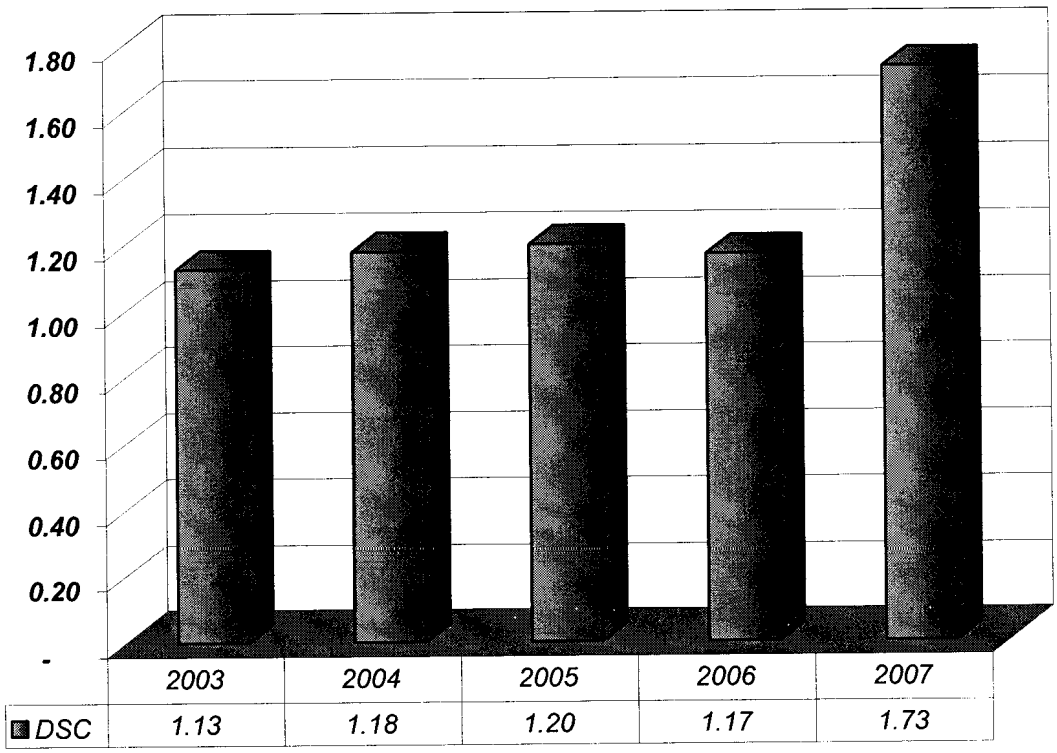
Section 8 GRDA Operating Results

8.1 Review of Historical Operating Performance

GRDA implemented a 4.5% base rate increase for its long-term firm power customers on July 1, 2004. That was GRDA's first rate increase since January 1, 1993. GRDA also increased the base energy charge effective April 1, 2006, resulting in an average rate increase of 4 to 7 percent, depending on the service received. The first full year in which both rate increases were in effect was 2007. As a result of the rate increases, GRDA's debt service coverage (DSC) has improved significantly over the past five years, as shown in Figure 16.

Additional information regarding GRDA's management, operation and maintenance of its system for the period from January 1, 2005 through December 31, 2007 is available in the Triennial Report prepared by C. H. Guernsey & Company and dated June 27, 2008.

Figure 16 – Debt Service Coverage[18]



8.1.1 Historical Operating Results

Annual historical operating results on a cash basis as prepared by GRDA for continuing disclosure purposes are shown during the five-year period ended December 31, 2007, in Table 13.

[18] Debt Service Coverage, *GRDA 2007 Comprehensive Annual Financial Report*, p. 56.

Table 13 – Historical Operating Results[19]

HISTORICAL OPERATING RESULTS[1]
UNAUDITED

	2003	2004	2005	2006	2007
Operating Revenues:					
Municipal Power Sales	$94,844,455	$101,078,663	$116,869,309	$116,614,608	$118,279,132
Electric Cooperative Power Sales	19,669,977	18,505,962	23,228,031	26,144,914	26,249,680
Industrial Power Sales	18,253,121	20,049,659	22,748,028	24,997,953	25,960,433
Off System Power Sales - Firm	50,624,563	53,572,471	60,021,769	55,890,706	55,023,861
Off System Power Sales - Spot	17,451,365	20,716,065	17,377,449	4,136,057	30,044,533
Other Power Sales[2]	4,994,484	5,246,951	5,156,961	6,207,254	5,851,260
Collection of Power Cost Adjustment	0	0	13,009,632	37,015,594	35,490,190
Gross Power Sales	$205,837,965	$219,169,771	$258,411,179	$271,007,086	$296,899,089
Other Operating Revenues	8,210,373	15,581,629	9,437,297	11,099,095	10,004,225
Total Operating Revenues	$214,048,338	$234,751,400	$267,848,476	$282,106,181	$306,903,314
Operating Expenses:					
Fuel	$60,691,493	$56,396,020	$61,999,460	$65,511,590	$75,652,926
Electric Production (excluding fuel)					
Coal Fired Plants[3]	13,393,053	18,334,512	12,820,070	19,532,765	15,113,933
Pensacola Hydro	1,718,727	1,700,130	2,046,158	2,215,249	2,088,470
Markham Ferry Hydro	1,504,558	4,026,856	1,774,782	1,976,514	2,696,171
Salina Pumped Storage	1,871,449	1,048,734	2,242,794	1,655,353	1,384,996
Other Operating Expenses[4]	13,872,595	15,070,002	21,833,822	18,109,364	17,209,965
Transmission	9,024,978	10,176,596	13,745,455	15,554,392	18,577,313
Purchased Power	7,773,382	14,646,299	47,980,861	57,142,790	28,974,960
Total Operating Expenses	$109,850,235	$121,399,149	$164,443,402	$181,698,017	$161,698,734
Net Operating Revenues	$104,198,103	$113,352,251	$103,405,074	$100,408,164	$145,204,580
Other Income[5]	9,888,845	8,665,074	10,971,748	11,464,743	19,691,690
Net Revenues Available for Bond Service	$114,086,948	$122,017,325	$114,376,822	$111,872,907	$164,896,270
Other Available Funds[6]	0	0	0	0	0
Total Funds Available for Bond Service	$114,086,948	$122,017,325	$114,376,822	$111,872,907	$164,896,270
Bond Service	95,289,541	95,326,966	95,491,484	95,480,729	95,429,572
Balance After Bond Service[7]	$18,797,407	$26,690,359	$18,885,338	$16,392,178	$69,466,698
Refund of Power Cost Adjustment	(6,800,291)	(9,507,983)	0	0	0
Available for Capital Improvements or Other Authorized Purposes	$11,997,116	$17,182,376	$18,885,338	$16,392,178	$69,466,698
Bond Service Coverage Including PCA[8]	1.13	1.18	1.20	1.17	1.73

(1) Excludes interdepartmental sales and expenses. Also excludes depreciation, which is not included in Maintenance and Operation Costs, as defined in the resolution, and does not require a cash outlay.
(2) Includes sales to Oklahoma Municipal Power Authority. Oklahoma Municipal Power Authority's portion includes its share of Authority debt service relating to GRDA 2 and common facilities, transmission service, fuel costs, fixed and variable operating expenses and administrative and general expenses.
(3) Reflects the Authority's 62% undivided ownership of GRDA Unit 2.
(4) Includes water operations and maintenance, lake patrol, customer accounting and administrative and general expenses.
(5) Consists primarily of interest income. Excludes amortization of forward investment contract receipts of $1,207,458, $1,201,640 $1,124,604, $1,198,457, and $1,198,457 in 2003, 2004, 2005, 2006, and 2007 respectively. Also excludes change in fair value of instruments of ($2,900,682), ($1,690,872), ($1,967,210), ($171,278), and $2,840,957 in 2003, 2004, 2005, 2006, and 2007 respectively, interest income restricted for construction of $608,322, $457,165, $284,776, $233,409, and $146,363 in 2003, 2004 2005, 2006, and 2007 respectively, interest income restricted for special purposes of $4,535, $6,973, $14,802, and $13,102 in 2004, 2005, 2006, and 2007 respectively, and allowance for funds used during construction of $224,732 and $860,403 in 2006 and 2007.
(6) Excess bond service payments made available as a result of the May 2002 refunding of the 1987 bonds.
(7) Funds available for Power Cost Adjustment, capital expenditures and other lawful purposes.
(8) Total Funds Available for Bond Service divided by Bond Service.

[19] 2007 GRDA Continuing Disclosure Report

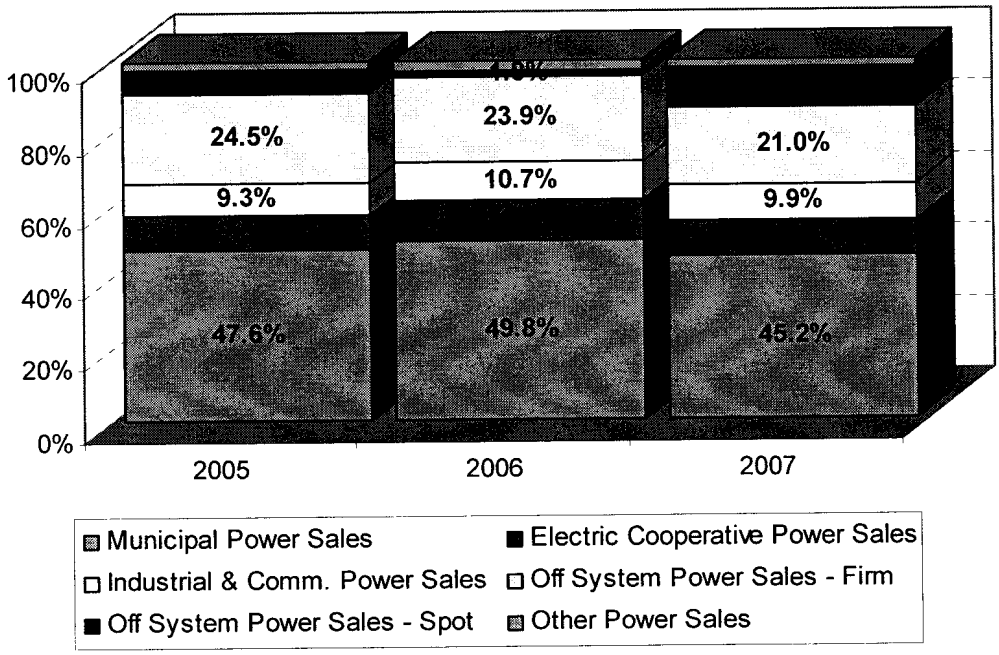
8.1.2 Operating Revenues

The operating revenues of GRDA consist primarily of power sales to electric cooperatives, municipal utilities (including joint action agencies) and retail industrial and commercial customers. The annual operating revenues for the period from 2005 to 2007 are shown in Table 13.

As of December 31, 2007, GRDA sold power to one rural electric cooperative – Northeastern Oklahoma Electric Cooperative, Inc. GRDA sold power to 17 municipal utilities and one tribal authority within the State of Oklahoma and two municipal utilities near the state border – Coffeyville, Kansas and Siloam Springs, Arkansas. GRDA also sells power to two joint action agencies, OMPA and KMEA, for resale to their respective member municipal utilities. GRDA serves over 80 retail industrial and commercial customers, with most located in the MidAmerica Industrial Park located northwest of the Coal-Fired Complex in Chouteau. All of GRDA's retail customers are within GRDA's 24-county service area.

A summary of the sources of GRDA's revenues from power sales is shown in Figure 17.

Figure 17 – Distribution of Revenues from Power Sales[20]



8.1.3 Operation and Maintenance Expenses

Annual historical operation and maintenance expenses are shown for the three-year period ended December 31, 2007, in Table 14.

[20] GRDA 2007 Continuing Disclosure Report

Table 14 – Operation and Maintenance Expenses[21]

	Year Ending December 31		
	2005	2006	2007
Generation			
Operation			
CFC 1	$ 2,973,283	$ 3,073,551	$ 3,281,470
CFC 2	3,173,777	3,015,457	3,275,427
Pensacola	1,071,714	1,244,273	1,054,201
Robert S. Kerr	600,192	399,644	993,657
Salina Pumped Storage	384,736	242,698	157,289
Total Operation	$ 8,203,703	$ 7,975,622	$ 8,762,044
Maintenance			
CFC 1	$ 3,628,009	$ 4,693,652	$ 4,871,461
CFC 2	3,924,432	9,710,376	4,703,221
Pensacola	974,444	970,976	1,034,269
Robert S. Kerr	1,174,590	1,576,870	1,702,514
Salina Pumped Storage	1,858,057	1,412,655	1,227,708
Total Maintenance	$ 11,559,533	$ 18,364,530	$ 13,539,173
Subtotal Generation	$ 19,763,236	$ 26,340,152	$ 22,301,217
Fuel			
CFC 1	$ 38,230,736	$ 41,688,946	$ 45,505,557
CFC 2	23,768,723	23,822,643	30,147,369
Subtotal Fuel	61,999,460	65,511,590	75,652,926
Salina Pumping Load	11,188,650	10,978,536	9,626,586
Total Fuel	$ 73,188,109	$ 76,490,126	$ 85,279,512
Total Generation	$ 92,951,345	$ 102,830,278	$ 107,580,728
Purchased Power	$ 47,980,861	$ 57,142,790	$ 28,974,960
Transmission	13,808,898	15,621,482	18,647,185
Administrative and General	20,456,802	16,620,891	15,784,491
Depreciation Expense	25,542,010	25,905,702	26,270,163
Water Production	462,848	533,723	518,685
Lake Patrol	981,480	1,030,785	990,404
Interdepartmental Electric Expenses	(11,850,600)	(11,757,521)	(10,367,628)
Interdepartmental Water Expenses	(348,233)	(324,411)	(430,091)
Total Operation & Maintenance Expenses	$ 189,985,412	$ 207,603,718	$ 187,968,897

[21] Unit Costs per MWH 2005-2007 provided by GRDA

8.1.4 Net Revenues

The annual net revenues of GRDA and the amounts available for debt service during the 3-year period from 2005 through 2007 are shown in Table 15.

Table 15 – Net Revenues for Debt Service Coverage[22]

	Year Ending December 31		
	2005	2006	2007
Operating Revenues	$ 279,602,389	$ 287,922,648	$ 288,469,008
Over/(Under) Recovered Fuel Cost	(11,753,913)	(5,816,468)	18,434,306
Revenues Available for Debt Service	$ 267,848,476	$ 282,106,180	$ 306,903,314
Operating Expenses, excluding depreciation	(164,443,402)	(181,698,016)	(161,698,734)
Other Income, excluding noncash amortizations, market adjustments, and other excluded interest	10,816,182	11,464,742	19,691,690
Other Available Funds	-	-	-
Net Revenue Available for Debt Service	$ 114,221,256	$ 111,872,906	$ 164,896,270
Debt Service Requirements	95,491,729	95,480,729	95,429,572
Net Revenues Available for Capital Improvements and Other Purposes	$ 18,729,527	$ 16,392,177	$ 69,466,698
Debt Service Coverage	1.20	1.17	1.73

8.2 Redbud Integration into GRDA Resource Portfolio

8.2.1 Load Forecast

To estimate its future load requirements, GRDA completed a load forecast in October 2007. The load forecast relied upon a "bottom-up" approach, meaning that an individual forecast was developed for each customer, the results of which were then summed to produce forecasts of GRDA's total energy sales and system peak demands. The load forecast was limited to GRDA's long-term contract sales where GRDA has an obligation to provide power to the customer, and therefore excluded spot sales and other short-term sales.

Where sufficient historical data was provided, econometric techniques were used to forecast the energy sales of GRDA's individual customers. For municipal and cooperative customers that provided customer class data, regression equations were developed where feasible and used to forecast future sales to each class. In cases where valid regression equations could not be developed, judgmental analysis was applied to forecast energy sales. That method was used to forecast the energy sales of some commercial and industrial loads served by GRDA's wholesale customers, as well as the total sales of municipal systems for which sufficient data was not provided for the use of econometric techniques. Sales to two large retail customers (one new customer to be served by GRDA directly and the other an expansion for a retail customer served by one of GRDA's wholesale customers) that have made plans to initiate or substantially expand their operations were also incorporated into the load forecast.

[22] Debt Service Coverage, *GRDA 2007 Comprehensive Annual Financial Report*, p. 56.

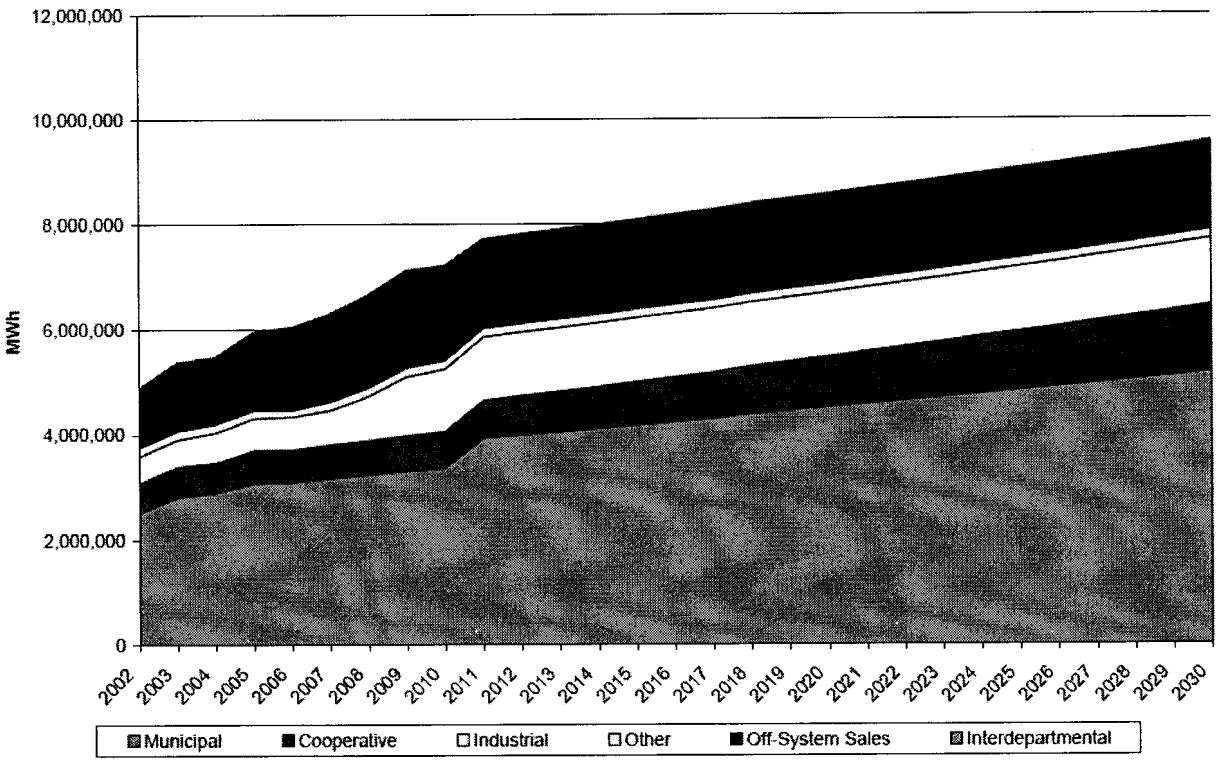
For GRDA's wholesale customers for whom data was provided, historical sales by the wholesale customer were compared to GRDA's sales to the customer to determine the wholesale customer's system losses. The average historical loss factor was then applied to the forecast sales to estimate the future energy requirements of the customer from GRDA. For retail customers directly served by GRDA, sales to OMPA from GRDA 2, off-system sales, GRDA interdepartmental sales and municipal customers whose historical sales were not provided, system energy requirements were forecast using judgmental analysis. The projected energy requirements by GRDA customer classification and in total are shown below in Table 16, indicating that GRDA's load is projected to grow from 6.1 GWh in 2006 to 8.2 GWh in 2016, a compound annual growth rate of 3.05%. The contribution of each customer group to GRDA's total projected system load is shown in

Figure 18.

Table 16 – Energy Requirements by Classification (MWh)

		Sub-Total: Municipal	Sub-Total: Cooperative	Sub-Total: Industrial	Sub-Total: Other	Sub-Total: Off-System Sales	GRDA Interdepartmental	Total GRDA Energy Requirements
	2002	2,517,030	553,950	508,976	169,838	1,137,330	15,433	4,902,557
	2003	2,818,392	563,585	525,229	171,755	1,298,974	15,242	5,393,177
	2004	2,898,338	557,503	586,650	170,278	1,272,628	14,143	5,499,540
	2005	3,076,678	618,191	628,190	155,001	1,477,114	14,977	5,970,151
Historical	2006	3,096,180	610,430	643,650	124,472	1,570,294	14,840	6,059,866
Projected	2007	3,177,661	632,473	665,608	167,517	1,657,542	14,840	6,315,641
	2008	3,234,011	654,954	852,613	167,517	1,760,034	14,840	6,683,969
	2009	3,301,727	677,390	1,139,554	167,517	1,844,184	14,840	7,145,212
	2010	3,362,040	701,390	1,194,556	167,517	1,794,732	14,840	7,235,076
	2011	3,937,897	724,807	1,198,703	167,517	1,686,732	14,840	7,730,496
	2012	4,004,371	750,077	1,202,517	167,517	1,686,732	14,840	7,826,054
	2013	4,062,283	774,035	1,206,412	167,517	1,686,732	14,840	7,911,820
	2014	4,121,410	799,666	1,209,941	167,517	1,686,732	14,840	8,000,106
	2015	4,189,031	825,092	1,212,320	167,517	1,686,732	14,840	8,095,532
	2016	4,248,428	851,907	1,214,718	167,517	1,686,732	14,840	8,184,142
	2017	4,308,396	878,190	1,217,078	167,517	1,686,732	14,840	8,272,753
	2018	4,401,538	903,854	1,219,461	167,517	1,686,732	14,840	8,393,943
	2019	4,464,515	930,496	1,221,925	167,517	1,686,732	14,840	8,486,025
	2020	4,524,729	957,234	1,224,349	167,517	1,686,732	14,840	8,575,401
	2021	4,593,776	984,287	1,226,852	167,517	1,686,732	14,840	8,674,004
	2022	4,657,596	1,014,037	1,229,316	167,517	1,686,732	14,840	8,770,039
	2023	4,721,769	1,043,137	1,231,826	167,517	1,686,732	14,840	8,865,822
	2024	4,792,092	1,073,773	1,234,392	167,517	1,686,732	14,840	8,969,346
	2025	4,857,470	1,103,137	1,237,003	167,517	1,686,732	14,840	9,066,699
	2026	4,920,026	1,133,074	1,239,525	167,517	1,686,732	14,840	9,161,714
	2027	4,993,139	1,163,995	1,242,209	167,517	1,686,732	14,840	9,268,433
	2028	5,059,044	1,198,128	1,244,874	167,517	1,686,732	14,840	9,371,136
	2029	5,124,773	1,230,374	1,247,633	167,517	1,686,732	14,840	9,471,870
	2030	5,199,442	1,264,049	1,250,395	167,517	1,686,732	14,840	9,582,975

Figure 18 – Contribution to Sales by Customer Class



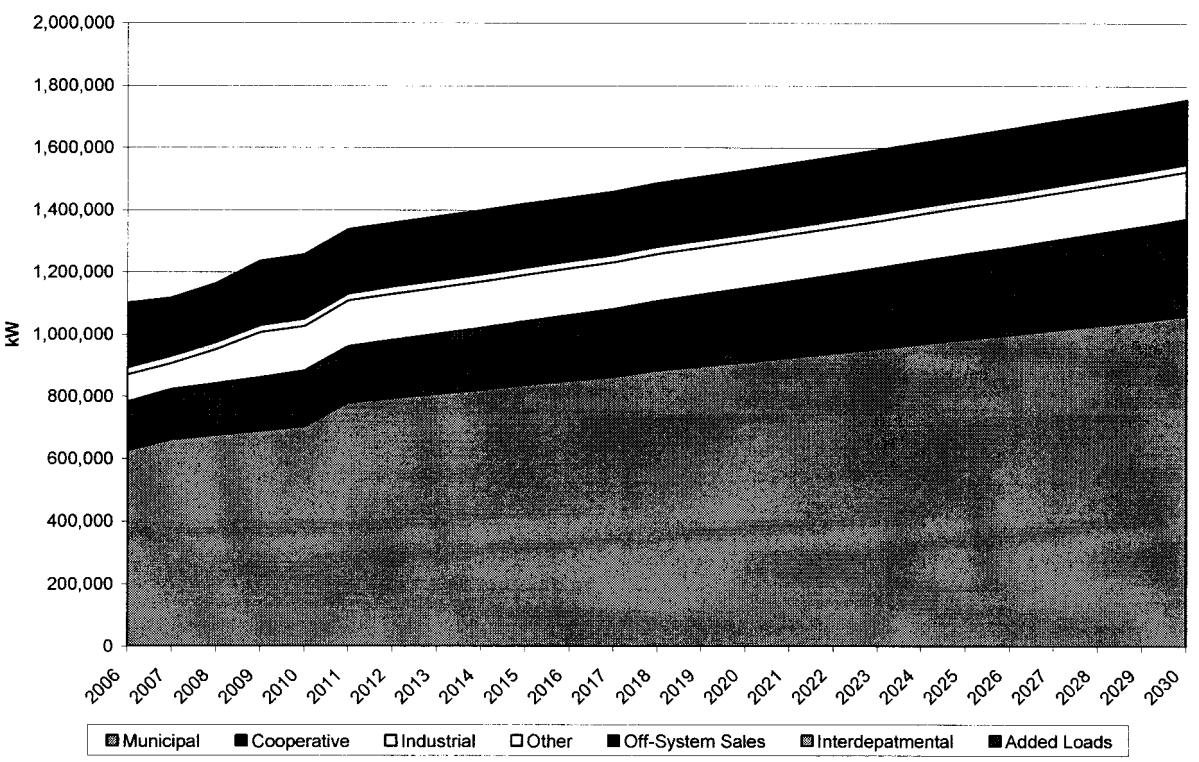
For all loads other than those associated with GRDA's own use, historical energy requirements were compared to annual 30-minute non-coincident peak (NCP) demands to compute load factors for each customer. An identical process was followed to determine an aggregate load factor for all interdepartmental load served by GRDA. Historical average load factors were then applied to the forecast energy requirements to project the future NCP demands of GRDA's various loads, with judgmental adjustments made as needed to account for the addition of expected future loads on the system.

For all loads other than GRDA's own use, the actual 2006 metered 30-minute non-coincident peak demand for each customer was compared to that customer's contribution to the GRDA 2006 system peak to determine a historical coincidence factor. Similarly, a 2006 aggregate coincidence factor was determined for all interdepartmental load served by GRDA. Data limitations prevented the calculation of coincidence factors prior to 2006. Therefore, the 2006 coincidence factors were applied to each customer's forecast NCP demands to forecast the future contribution of each customer to GRDA's system peak. As shown in Table 17, projected coincident peak (CP) demands for the total GRDA system are expected to grow from 1,102 MW in 2006 to 1,441 MW in 2016, a compound annual growth rate of 2.72%. The contribution of each customer group to GRDA's total projected system peak is shown in Figure 19.

Table 17 – Peak Demand by Classification (kW)

		Sub-Total: Municipal	Sub-Total: Cooperative	Sub-Total: Industrial	Sub-Total: Other	Sub-Total: Off-System Sales	GRDA Interdepatmental	Total GRDA Peak Demand
Historical	2006	626,634	157,149	85,755	23,000	208,000	1,521	**1,102,059**
Projected	2007	663,149	159,613	84,290	23,000	188,000	1,427	**1,119,479**
	2008	676,247	165,095	110,535	23,000	188,000	1,427	**1,164,303**
	2009	691,514	170,553	145,567	23,000	205,000	1,427	**1,237,061**
	2010	705,078	176,392	146,097	23,000	205,000	1,427	**1,256,994**
	2011	780,290	182,071	146,644	23,000	205,000	1,427	**1,338,432**
	2012	795,168	188,201	147,144	23,000	205,000	1,427	**1,359,941**
	2013	808,131	193,989	147,654	23,000	205,000	1,427	**1,379,201**
	2014	821,346	200,183	148,118	23,000	205,000	1,427	**1,399,073**
	2015	836,515	206,310	148,444	23,000	205,000	1,427	**1,420,697**
	2016	849,761	212,771	148,770	23,000	205,000	1,427	**1,440,729**
	2017	863,180	219,084	149,092	23,000	205,000	1,427	**1,460,783**
	2018	883,687	225,229	149,413	23,000	205,000	1,427	**1,487,757**
	2019	897,754	231,603	149,749	23,000	205,000	1,427	**1,508,533**
	2020	911,173	237,986	150,074	23,000	205,000	1,427	**1,528,661**
	2021	926,559	244,433	150,414	23,000	205,000	1,427	**1,550,833**
	2022	940,749	251,534	150,749	23,000	205,000	1,427	**1,572,458**
	2023	955,052	258,458	151,089	23,000	205,000	1,427	**1,594,027**
	2024	970,720	265,747	151,437	23,000	205,000	1,427	**1,617,331**
	2025	985,306	272,704	151,791	23,000	205,000	1,427	**1,639,228**
	2026	999,179	279,787	152,128	23,000	205,000	1,427	**1,660,522**
	2027	1,015,486	287,097	152,493	23,000	205,000	1,427	**1,684,504**
	2028	1,030,155	295,182	152,854	23,000	205,000	1,427	**1,707,618**
	2029	1,044,731	302,784	153,226	23,000	205,000	1,427	**1,730,167**
	2030	1,061,408	310,720	153,598	23,000	205,000	1,427	**1,755,153**

Figure 19 – Contribution to Peak Demand by Customer Class



8.2.2 Production Cost Model

GUERNSEY developed a production cost model of the GRDA system and Redbud integration using Ventyx's (formerly NewEnergy Associates) PowerBase™ and PROMOD IV® software and MarketVision™ Data[23]. The analysis develops an economic dispatch based on individual resource characteristics of GRDA's facilities to serve GRDA's total system load on a least-cost basis, and is a commonly used process for projecting the operation of a system of generating units and purchases to serve a specified system load. Resource characteristics include, but are not limited to, unit maximums and minimums, heat rate curves, fixed and variable operation and maintenance costs, scheduled and forced outages, and ramp rates. Other data inputs include fuel prices, market prices for power, and emission costs.

Redbud was not assumed to be available for operation by GRDA until January 1, 2009. Gas prices utilized in the base case were based on the NYMEX natural gas futures settled July 11, 2008. Coal prices were provided by GRDA. A listing of certain assumptions is included in Appendix B.

The results from the production cost model were used in the financial forecast discussed in Section 8.3.

Steps taken:

1. Dispatch GRDA only system. Redbud is scaled down to reflect 36% ownership (i.e., modeled as four 108 MW units).
2. Dispatch OG&E only system. Redbud is scaled down to reflect 51% ownership (i.e., modeled as four 153 units).
3. Dispatch OMPA only system. Redbud is scaled down to reflect 13% ownership (i.e., modeled as four 39 MW units).

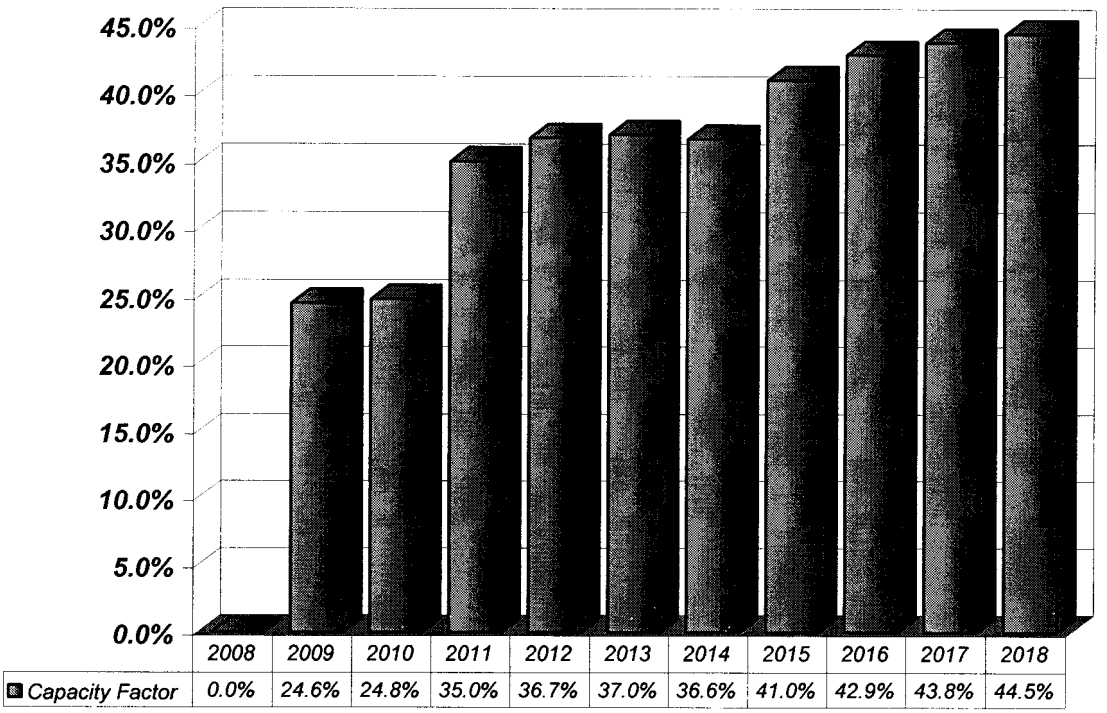
Steps one through three provide projections of each owner's dispatch of their respective share of Redbud to meet their load obligations with no spot sales.

4. Aggregate results; eliminate generation in hours where the totals are less than 150 MW, the operating minimum, on a unit.
5. Dispatch combined GRDA-OG&E-OMPA areas. Redbud is modeled as a single plant (i.e., four 300 MW units).
6. Dispatch entire SPP. Redbud modeled as a single plant (i.e., four 300 MW units).

The projected annual capacity factors for GRDA's share of Redbud, generated from the model, are shown in Figure 20. As GRDA's load obligation increases, the projected capacity factor for Redbud increases. To the extent GRDA is able to make spot sales (including sales into the SPP balancing market), the capacity factor will be higher.

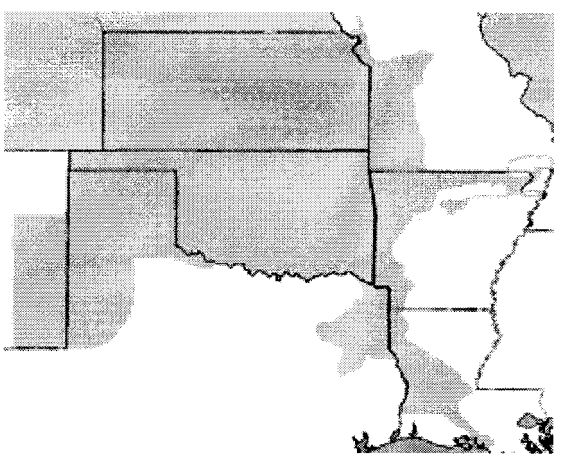
[23] The MarketVision™ Data is developed from the Ventyx Velocity Suite data but is formatted for use in PowerBase™.

Figure 20 – Projected Redbud Annual Capacity Factors with No Market Sales



For the SPP regional dispatch, the dispatch analysis was expanded to include the loads and resources in the service territories in SPP as reported in Ventyx's MarketVision™ Data. An overview of the region is shown in Figure 21. The dispatch analysis included both utility and non-utility owned resources.

Figure 21 – Regional Area Dispatched



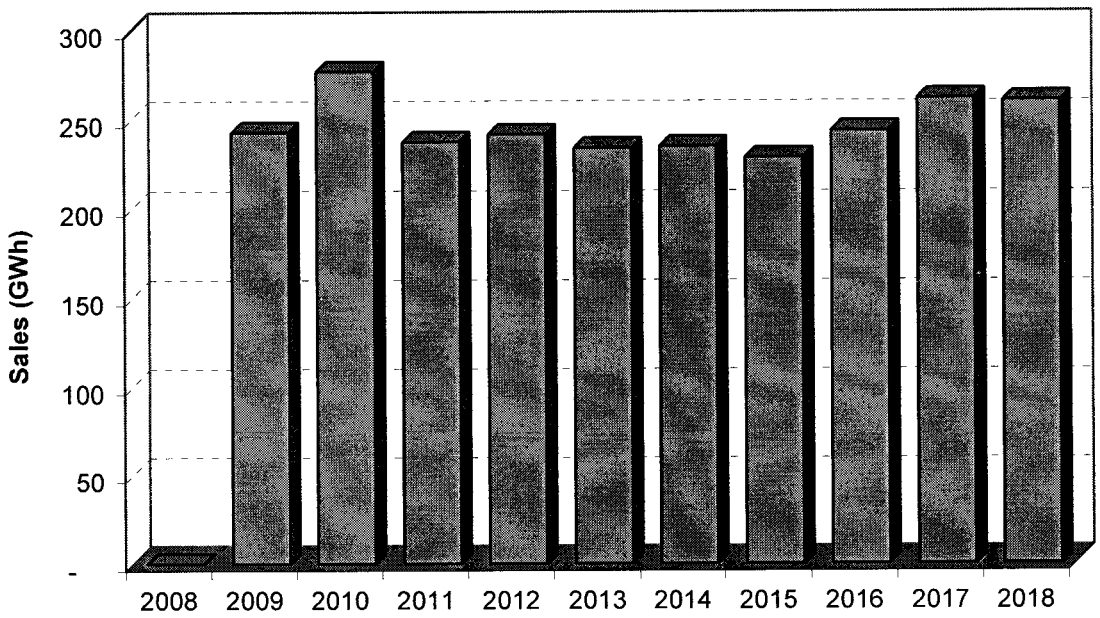
The regional dispatch is an economic dispatch of all loads and resources in the SPP. This implies that the next lowest cost resource is dispatched across the entire region. The regional dispatch captures Redbud's competitive position and the likelihood it will be used to sell into the market, but does not

consider transmission constraints. SPP frequently experiences transmission constraints that limit the ability of potential sellers to make a sale that would otherwise be economical.

Only two changes were made to the MarketVision™ Data: (1) updating the GRDA loads and resources to reflect specific knowledge of their system and (2) updating the Henry Hub Natural Gas forecast to equal the NYMEX natural gas futures settled July 11, 2008.

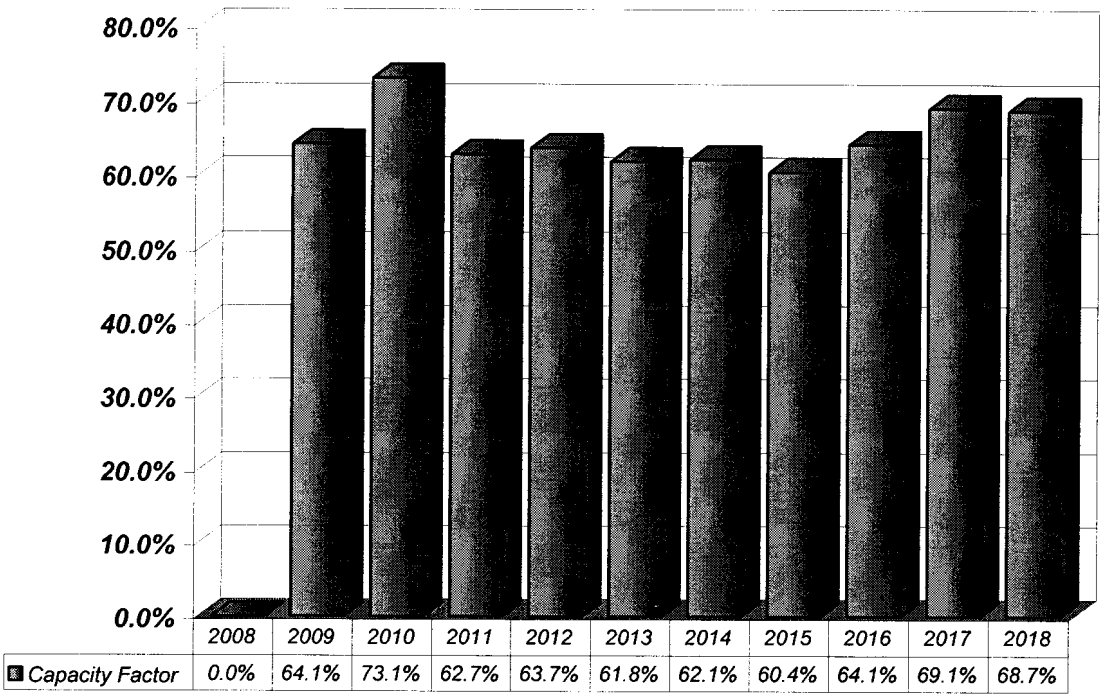
GRDA's projected market energy sales for the base financial case are shown in Figure 22. The forecast does not include any revenue for market capacity sales by GRDA from Redbud. GRDA was assigned generation and costs from Redbud beginning January 1, 2009 in accordance with the dispatch and settlement procedures in the O&O Agreement.

Figure 22 – Market Sales from GRDA Resources



The annual capacity factor from the regional dispatch is shown in Figure 23. The capacity factor with the regional dispatch is significantly higher than the capacity factor from the GRDA only case.

Figure 23 – Projected Redbud Annual Capacity Factors for the Regional Dispatch



8.3 Forecast Operating Results

8.3.1 Overview of Financial Model and Technical Assumptions

A financial forecast of GRDA's financial statements was developed for 2008-2018 based on the production cost model, GRDA's capital additions, debt requirements, operating revenues and expenses. Specific assumptions are included in Appendix C.

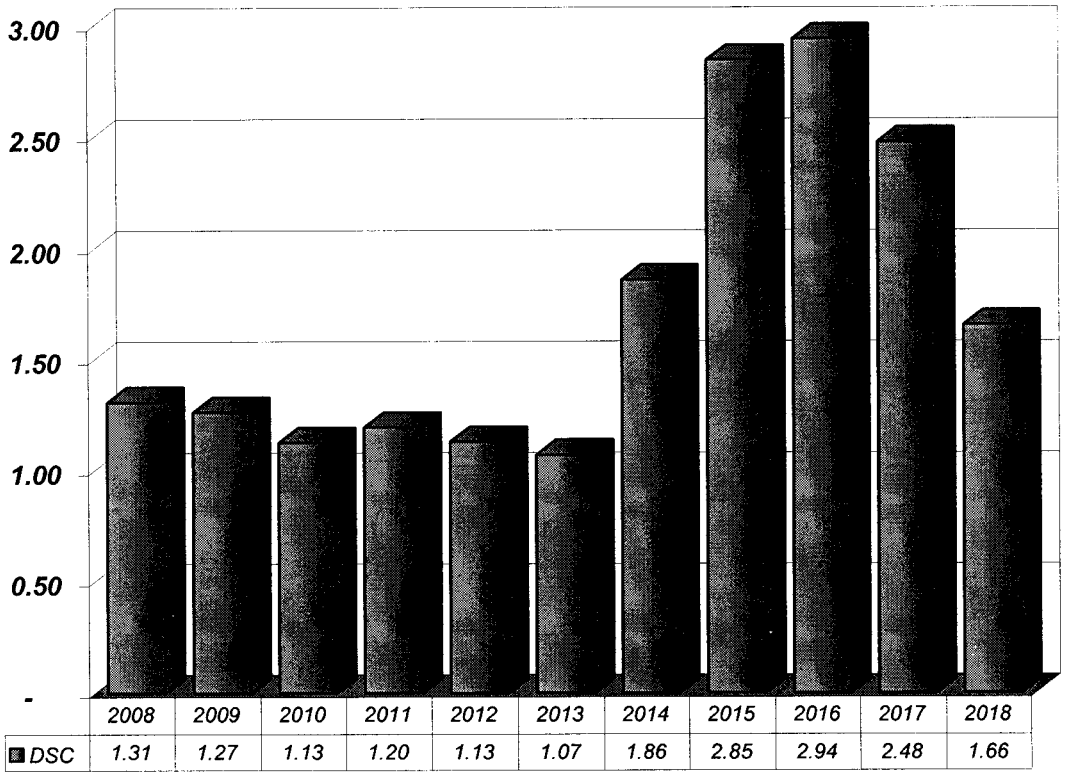
The projected debt service coverage is shown in Figure 24. The DSC substantially increases in 2014 and 2015 as GRDA's existing bonds are repaid. The most recent projections of debt service requirements (prepared subsequent to the financial forecast used in this report) are slightly lower than the amounts reflected in the financial forecast, but remain subject to change until the bonds are issued. Table 18 provides an annual summary of the financial forecast.

Table 18 – Financial Forecast

	2005	2006	2007	2008	2009	2010	2011
Operating Revenues:							
32 Wholesale Power Sales	200,119,109	198,650,227	199,552,673	211,797,380	218,238,563	219,926,732	238,177,327
33 Industrial Power Sales	22,748,028	24,997,953	25,960,433	32,254,349	42,072,338	43,971,596	44,136,227
34 Other Power Sales	5,156,961	6,207,254	5,851,260	6,181,049	6,670,403	7,068,362	7,335,812
35 Off System Power Sales-Spot	17,377,449	4,136,057	30,044,533	0	21,855,984	22,036,115	18,144,703
36 Power Cost Adjustment	13,042,768	37,109,407	35,580,413	63,511,765	104,685,616	110,810,697	134,180,296
37 Additional Revenue Required	0	0	0	0	0	0	0
38 Interdepartmental Sales	11,817,465	11,663,708	10,277,407	561,397	547,893	546,260	546,409
39 Gross Power Sales	270,261,780	282,764,606	307,266,719	314,305,940	394,070,798	404,359,762	442,520,775
40 Other Operating Revenues	9,785,531	11,423,506	10,434,316	10,452,527	10,808,090	11,245,126	11,526,254
41 Total Operating Revenues	280,047,311	294,188,112	317,701,035	324,758,467	404,878,888	415,604,888	454,047,029
Operating Expenses:							
44 Fuel-Coal	61,999,460	65,511,590	75,652,926	93,067,293	107,788,280	119,520,811	128,101,524
45 Fuel-New Plant	0	0	0	0	91,105,767	87,217,624	107,999,081
Electric Production Excluding Fuel							
47 Coal Fired Plants	13,699,502	20,493,036	16,131,580	15,625,315	16,015,948	16,416,347	16,826,755
48 New Plant	0	0	0	0	1,761,441	1,877,007	2,484,877
49 Pensacola Hydro	2,046,158	2,215,249	2,088,470	2,140,682	2,194,199	2,249,054	2,305,280
50 Markham Ferry Hydro	1,774,782	1,976,514	2,696,171	2,763,575	2,832,665	2,903,481	2,976,068
51 Salina Pumped Storage	13,431,444	12,633,889	11,011,582	1,419,621	1,455,111	1,491,489	1,528,776
52 Other Operating Expenses	21,901,130	18,185,399	17,293,580	22,319,651	20,265,913	26,795,351	20,832,778
53 Transmission	13,808,898	15,621,482	18,647,185	16,412,320	16,822,628	17,243,193	17,674,273
54 Purchased Power	47,980,861	57,142,790	28,974,960	64,302,132	12,197,894	13,719,744	15,239,247
55 Total Operating Expenses	176,642,235	193,779,949	172,496,454	218,050,588	272,439,846	289,434,101	315,968,659
57 Net Operating Revenues	103,405,076	100,408,163	145,204,581	106,707,879	132,439,042	126,170,787	138,078,369
59 Other Income	10,742,014	11,462,391	19,690,984	15,363,321	14,228,140	12,558,812	11,563,677
61 Net Current Revenues Available for Debt Ser	114,147,090	111,870,554	164,895,565	122,071,200	146,667,182	138,729,599	149,642,046
62 Bond Service	95,491,484	95,480,729	95,429,573	93,086,579	115,757,686	122,972,609	124,916,120
64 Balance After Bond Service	18,655,606	16,389,825	69,465,992	28,984,621	30,909,496	15,756,990	24,725,926
65 Refund of Power Cost Adjustment	0	0	0	0	0	0	0
66 Capital Lease Payments	0	0	0	0	0	0	0
67 Available for Capital Improvements and Inco	18,655,606	16,389,825	69,465,992	28,984,621	30,909,496	15,756,990	24,725,926
69 Bond Service Coverage	1.1954	1.1717	1.7279	1.3114	1.267	1.1281	1.1979
71 Gross Power Sales - Mills per kWh	40.2396489	46.2572823	45.9333059	47.0238447	53.3395496	53.8298598	55.5379696
72 Power Sales Excluding OMPA & Spot Sales - M	38.0453954	44.4316115	43.8619084	47.283481	52.3885525	53.0967405	55.1434714

	2012	2013	2014	2015	2016	2017	2018
Operating Revenues:							
32 Wholesale Power Sales	241,840,020	245,098,205	248,472,634	252,182,522	255,614,763	259,045,825	263,667,519
33 Industrial Power Sales	44,276,681	44,432,141	44,574,231	44,661,871	44,750,195	44,849,331	44,937,149
34 Other Power Sales	7,786,050	8,073,346	8,380,015	8,700,228	9,034,807	9,382,572	9,742,976
35 Off System Power Sales-Spot	19,109,694	18,731,821	19,454,362	20,091,473	23,057,481	25,113,462	27,881,440
36 Power Cost Adjustment	145,790,170	160,776,364	175,803,173	189,515,229	206,258,872	195,463,048	169,946,874
37 Additional Revenue Required	0	0	0	0	0	0	0
38 Interdepartmental Sales	546,409	546,557	546,706	546,706	546,706	546,854	546,854
39 Gross Power Sales	459,349,023	477,658,435	497,231,120	515,698,029	539,262,824	534,401,092	516,722,813
40 Other Operating Revenues	11,814,410	12,109,770	12,412,515	12,722,828	13,040,898	13,366,921	13,701,094
41 Total Operating Revenues	471,163,434	489,768,205	509,643,635	528,420,857	552,303,722	547,768,013	530,423,907
Operating Expenses:							
44 Fuel-Coal	142,196,077	148,879,976	156,460,825	164,672,982	173,728,642	183,029,075	191,258,523
45 Fuel-New Plant	110,985,398	113,316,973	114,868,922	128,479,598	139,415,060	146,653,302	153,401,233
Electric Production Excluding Fuel							
47 Coal Fired Plants	17,247,424	17,678,610	18,120,575	18,573,589	19,037,929	19,513,877	20,001,724
48 New Plant	2,657,555	2,727,240	2,786,136	3,127,407	3,374,753	3,549,275	3,687,907
49 Pensacola Hydro	2,362,912	2,421,985	2,482,535	2,544,598	2,608,213	2,673,418	2,740,254
50 Markham Ferry Hydro	3,050,470	3,126,732	3,204,900	3,285,023	3,367,148	3,451,327	3,537,610
51 Salina Pumped Storage	1,566,996	1,606,171	1,646,325	1,687,483	1,729,670	1,772,912	1,817,235
52 Other Operating Expenses	27,873,096	20,365,251	23,796,632	22,734,148	22,609,812	23,149,744	23,703,176
53 Transmission	18,116,130	18,569,033	19,033,259	19,509,090	19,996,818	20,496,738	21,009,157
54 Purchased Power	12,303,152	20,397,855	28,945,995	22,663,906	23,014,511	27,297,956	38,845,103
55 Total Operating Expenses	338,359,210	349,089,825	371,346,103	387,277,825	408,882,555	431,587,625	460,001,921
57 Net Operating Revenues	132,804,223	140,678,380	138,297,532	141,143,032	143,421,167	116,180,388	70,421,986
59 Other Income	11,252,310	8,958,004	8,368,771	11,444,333	14,269,396	16,722,777	18,451,618
61 Net Current Revenues Available for Debt Ser	144,056,533	149,636,384	146,666,303	152,587,365	157,690,563	132,903,165	88,873,603
62 Bond Service	127,227,017	139,576,341	78,685,801	53,601,579	53,597,521	53,597,861	53,605,034
64 Balance After Bond Service	16,829,516	10,060,043	67,980,502	98,985,786	104,093,042	79,305,304	35,268,569
65 Refund of Power Cost Adjustment	0	0	0	0	0	0	0
66 Capital Lease Payments	0	0	0	0	0	0	0
67 Available for Capital Improvements and Inco	16,829,516	10,060,043	67,980,502	98,985,786	104,093,042	79,305,304	35,268,569
69 Bond Service Coverage	1.1323	1.0721	1.8639	2.8467	2.9421	2.4796	1.6579
71 Gross Power Sales - Mills per kWh	56.9375942	58.6395786	60.380523	61.9523737	63.9882852	62.6193336	59.7096604
72 Power Sales Excluding OMPA & Spot Sales - M	56.468016	58.2186194	59.9299032	61.4171821	63.2661394	61.6781086	58.2402718

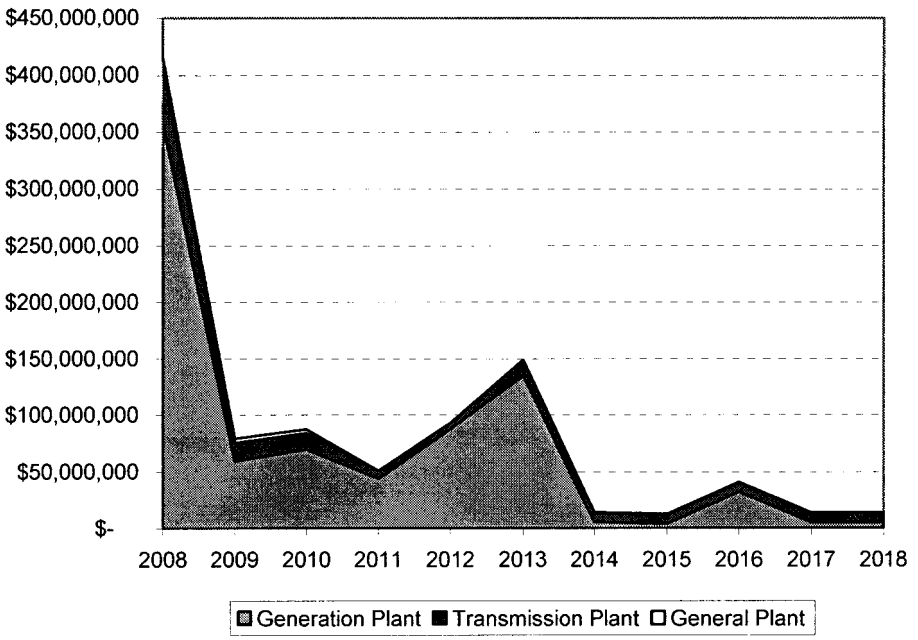
Figure 24 – Projected Debt Service Coverage



8.3.2 Forecast Capital Costs

The forecast annual capital additions are shown in Figure 25. The large addition in 2008 is primarily the Redbud purchase. The large additions in 2012 and 2013 are primarily environmental upgrades at the Coal-Fired Complex.

Figure 25 – Plant Additions



8.3.3 Project Financing and Flow of Funds

The purchase price for GRDA's 36% share of Redbud is approximately $307 million. In addition, GRDA estimates that it will incur other capitalized costs associated with the purchase transaction of approximately $3 million. GRDA intends to finance the majority of the capitalized costs with the issuance of long-term debt. The portion that is not financed with debt will be financed with available cash and serve to reduce the amount of taxable debt to be issued.

8.3.4 Forecast Operating Results

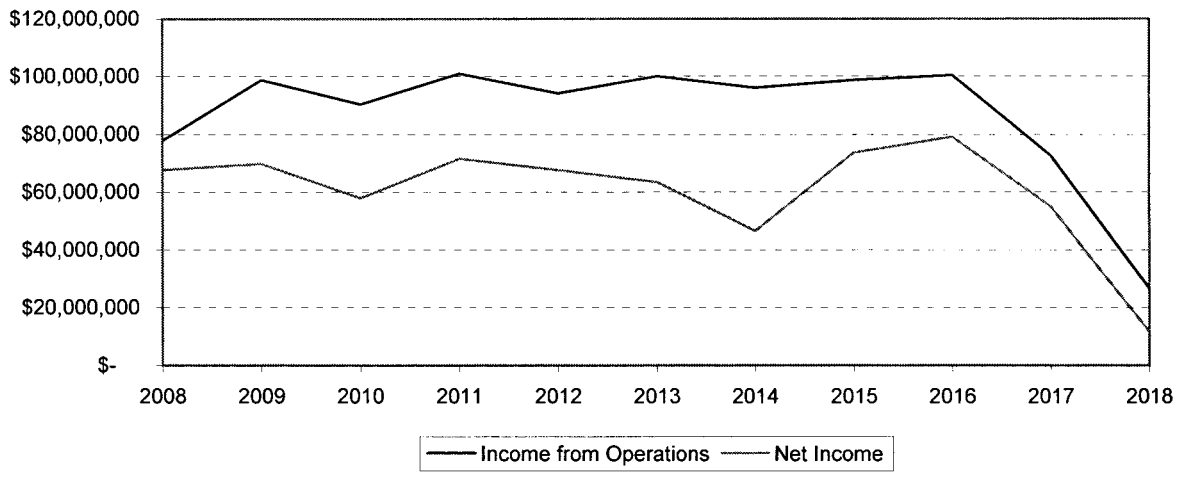
Figure 26 provides GRDA's projected annual net income and income from operations from the financial forecast.

The forecast includes revenues and expenses associated with spot sales of energy by GRDA. The estimated sales discussed in Section 8.2 represent a high estimate, premised on the assumption that GRDA will find buyers for all of the energy available from Redbud in excess of the amount necessary to serve GRDA's load and for which the market price exceeds GRDA's incremental energy cost. However, it is highly unlikely that GRDA will find buyers for all such energy. GRDA has very limited personnel for the power marketing function, and the personnel that perform the power marketing function have responsibilities in addition to power marketing. GRDA's ability to sell energy from Redbud to others will also be restricted at times due to transmission constraints. The extent to which transmission constraints limit GRDA's sales cannot be estimated with any reasonable degree of accuracy.

In order to account for limitations on GRDA's ability to make market sales, the results of the analysis of spot sales presented in Section 8.2 were reduced by 75% for purposes of the financial forecast. That results in a level of annual spot sales that varies from $18 million to $28 million during the forecast period, with annual margins that vary between $3 million and $10 million. That level of sales and margins is reasonably achievable by GRDA.

The financial forecast does not include any costs associated with greenhouse gas (GHG) emissions. The timing and method of implementation of GHG emission regulations is unknown, as is the cost of compliance. Such regulations could, however, result in a large increase in GRDA's operating costs. How GRDA would recover such costs from its customers is also unknown. GRDA would need to recover the costs, which would result in an increase in GRDA's rates. Other utilities will also incur costs for GHG emissions. However, GRDA may experience a larger increase in rates than the neighboring utilities on average because GRDA produces a higher percentage of its energy from coal than most of its neighboring utilities.

Figure 26 – Projected Income



The reduction in income from operations in 2017 and 2018 results from the rate stabilization credit that GRDA has agreed to establish if certain conditions are met. Those conditions include (1) accumulation of funds in GRDA's general operating fund in excess of six months operating expenses, including fuel, and (2) current year DSC in excess of 1.2. If the conditions are satisfied, GRDA will credit the excess revenues against the costs included in GRDA's power cost adjustment, thereby reducing rates. The financial forecast shows a rate stabilization credit of zero until 2017, a credit of $30 million in 2017, and a credit of $83 million in 2018. If the conditions are not satisfied, GRDA has no obligation to provide the rate stabilization credit.

The assumptions contained within the projected operating results, including information regarding plant outages, are reasonable, based upon typical power generation industry benchmarks and historical results.

Section 9 Comparison Cost of Power

9.1 Reasonableness of Redbud Purchase Price

GRDA, OG&E, and OMPA have agreed to purchase Redbud for $852 million, or $693/kW, based on a nominal rating of 1,230 MW. As shown in Table 19, the cost per kW for other combined cycle units sold since the Redbud transaction was announced has varied significantly – ranging from a high of $1,071/kW for TransCanada's purchase of Ravenswood in Queens, New York to a low of $432/kW for Fort Chicago Energy Partners' purchase of Brush II in Brush, Colorado. Specific details which may have influenced the various transaction prices are unknown.

In general, prices for the purchase of existing combined cycle plants have increased in the recent past. Load levels have increased, requiring many power suppliers to acquire additional generation resources. In such circumstances, the purchase of an existing generating facility is often viewed as strategically advantageous because the time required for project development and construction is typically much longer than the time required to complete a purchase transaction, the risk of project development and construction is avoided, and there is operational history that allows evaluation of performance. The dramatic increase in the cost of equipment and materials has driven the cost of new construction to unusually high levels by historical standards, adding further interest in the purchase of existing facilities as an alternative to new construction. In addition, the development of coal-fired generation, the traditional alternative to combined cycle units, has become very difficult, particularly with respect to air permits, further increasing interest in gas-fired resources to meet growing power requirements.

Table 19 – Recent Combined Cycle Sales[24]

Target/Buyer	Location	Announce Date	Status	Announced Transaction Value ($M)	Nameplate (MW)	$/kW	Plant COD
Brush II power plant/Fort Chicago Energy Partners L.P.	Brush, CO	Jul-08	Pending	$ 32.00	74.0	$ 432.43	Jan-94
Complete Energy Holdings LLC/GSC Group, Inc.	La Paloma near Los Angeles, CA; Batesville in northern MS	May-08	Pending	$ 1,300.00	2,091.0	$ 621.71	Jan-03 / Mar-00
Bighorn CC/Sierra Pacific Resources	Las Vegas, NV	Apr-08	Pending	$ 500.00	598.0	$ 836.12	Feb-04
Holland Energy LLC/Wabash Valley Power/Hoosier Energy	Beecher City, IL	Apr-08	Pending	$ 383.00	702.1	$ 545.51	Sep-02
Southaven power plant/Tennessee Valley Authority	De Soto, MS	Mar-08	Completed	$ 461.30	904.0	$ 510.29	Jun-03
Ravenswood power plant/TransCanada Corporation	Queens, NY	Mar-08	Pending	$ 2,811.10	2,625.0	$ 1,070.90	Dec-03
Reliant Energy Channelview plant/Harbert Management Corporation	Houston, TX	Feb-08	Terminated	$ 468.00	918.3	$ 509.64	Jun-02
Fremont power plant/FirstEnergy Corp.	Sandusky County, OH	Jan-08	Completed	$ 253.60	550.0	$ 461.09	Under Construction
Redbud Energy power plant/OGE Energy Corp.	Luther, OK	Jan-08	Pending	$ 852.00	1,230.0	$ 692.68	May-04

OG&E has testified it would cost "$900/kW for construction of a similar generation resource"[25]. Others have projected cost estimates for a new combined cycle units in excess of $1,000/kW.

Given the age of Redbud (approximately four years), the lower capital cost as compared to the cost of a new combined cycle unit, the location of the plant in close proximity to GRDA's system, the availability of 150 MW of long-term firm transmission service from Redbud to the GRDA system, the ability to acquire only a portion of the plant to better meet GRDA's needs, the strategic advantage to GRDA of efficient gas-fired generation to complement its coal-fired and hydroelectric generation, and the comparability of the purchase price to other transactions, GRDA's purchase price of Redbud is reasonable.

[24] SNL Deal Listing for Energy Transactions as of July 18, 2008. Note: FirstEnergy Corporation purchased the unfinished Fremont power plant from Calpine Corporation through a bidding process in bankruptcy court.
[25] OG&E and Redbud Energy LP Joint Application for Authorization under Section 203 of the Federal Power Act for Disposition of Jurisdictional Facilties, Volume 1 of 2, March 20, 2008, p. 14.

9.2 Competitive Position of Redbud

Redbud is one of several combined cycle plants currently operating in Oklahoma. As shown in Table 20, Redbud is the newest plant although several went into service between 2000 and 2004.

As shown, Redbud has a competitive heat rate as compared to the other combined cycle units. This implies that, to the extent GRDA and the other owners bid output from Redbud into the SPP EIS market, Redbud will be one of the first combined cycle plants called on by SPP in the SPP EIS market.

Table 20 – Oklahoma Combined Cycle Plants[26]

Plant Name	Owner	Operating Capacity (MW)	Nameplate Capacity (MW)	2007 Avg Heat Rate (Btu/kWh)	Year 1st Unit in Service	Notes
Anadarko CC	Western Farmers Electric Cooperative	300.0	300.0	9,424	1977	
Calpine Pryor ST	Calpine Corp.	28.0	25.0	10,963	1943	
Chouteau	Associated Electric Coop	501.0	532.9	7,300	2000	in SERC, not SPP
Comanche CC	Public Service Co. of Oklahoma	273.0	290.0	9,483	1973	
Green Country Energy Project	J-Power USA Generation	791.0	885.6	7,265	2002	
Kiamichi Energy Facility	Diamond Generating Corporation / Tenaska (50% / 50%)	1,288.0	1,370.0	7,435	2003	Can sell to SPP or ERCOT
McClain Energy Facility	OG&E / OMPA (77% / 23%)	461.0	551.3	7,657	2001	
Northeastern CC	Public Service Co. of Oklahoma	487.0	527.0	8,206	1961	
Oneta Energy Center	Calpine Generating Co. LLC	1,180.5	1,214.0	7,581	2003	
Ponca City CC	OMPA		131.0		1995	
Power Smith Cogeneration	Power Smith / NRG (91.25% / 8.75%)	111.4	122.4		1989	
Redbud Energy	Kelson Holdings	1,286.0	1,338.0	7,151	2004	

Another measure of Redbud's competitive position is the results from the regional dispatch in PROMOD IV®. This encompassed the entire SPP region rather than only Oklahoma. As shown in Table 21, Redbud is also one of the first combined cycle plants dispatched in the SPP. The heat rates shown in Table 21 are the average heat rates generated by PROMOD IV®, based on the MarketVision™ Data.

[26] SNL Interactive, Production Cost Detail for Oklahoma Combined Cycle Plants (accessed June 25, 2008).

Table 21 – Comparison of Combined Cycle Units from PROMOD IV® SPP dispatch

Plant Name	*Over Study Period (2008-2020)* Average Cost ($/MWh)	Average Heat Rate (MMBtu/MWh)
Green Country Energy LLC: CC3	$ 73.78	6.780
Green Country Energy LLC: CC1	$ 74.01	6.801
McClain Energy: CC	$ 74.81	6.835
State Line Combined Cycle: CC	$ 77.39	6.871
Green Country Energy LLC: CC2	$ 75.25	6.887
Acadia Power Station: CC2	$ 83.68	6.931
Acadia Power Station: CC1	$ 83.48	6.932
Evangeline Power Station: CC6	$ 84.19	7.018
Hobbs Generating Station: CC	$ 78.41	7.169
Hawthorne (MO): CC	$ 82.33	7.209
Northeastern: CC	$ 78.99	7.232
Redbud Power Plant: CC4	$ 76.74	7.254
Redbud Power Plant: CC3	$ 76.64	7.257
Redbud Power Plant: CC2	$ 76.56	7.258
Redbud Power Plant: CC1	$ 76.62	7.265
Oneta Energy Center: CC2	$ 81.22	7.385
Oneta Energy Center: CC1	$ 81.00	7.385
Eastex Cogeneration Facility: CC	$ 82.59	7.414
Harrison County Power Project: CC1	$ 82.12	7.421
Mustang Station: CC	$ 81.39	7.421
Aries Power Project: CC	$ 85.62	7.506
Evangeline Power Station: CC7	$ 92.08	7.548
Fitzhugh: CC1	$ 84.82	7.587
Ponca City: CC	$ 86.29	7.864
J Robert Massengale: CC	$ 87.80	7.867
Comanche (OK): CC	$ 87.86	8.013
Powersmith Cogeneration Project: CC	$ 89.74	8.027
Calpine Pryor Inc: CC	$ 86.26	8.039
Anadarko (OK WFEC): 6	$ 95.87	8.531
Anadarko (OK WFEC): 4	$ 95.61	8.532
Anadarko (OK WFEC): 5	$ 96.14	8.535

9.3 Competitive Position of GRDA Rates

GRDA's average industrial rates and average cost of power have historically been less than its neighboring utilities, as shown in Figure 27 and Figure 28, respectively.

Figure 27 – Comparison of Average Industrial Rate ($/MWh)[27]

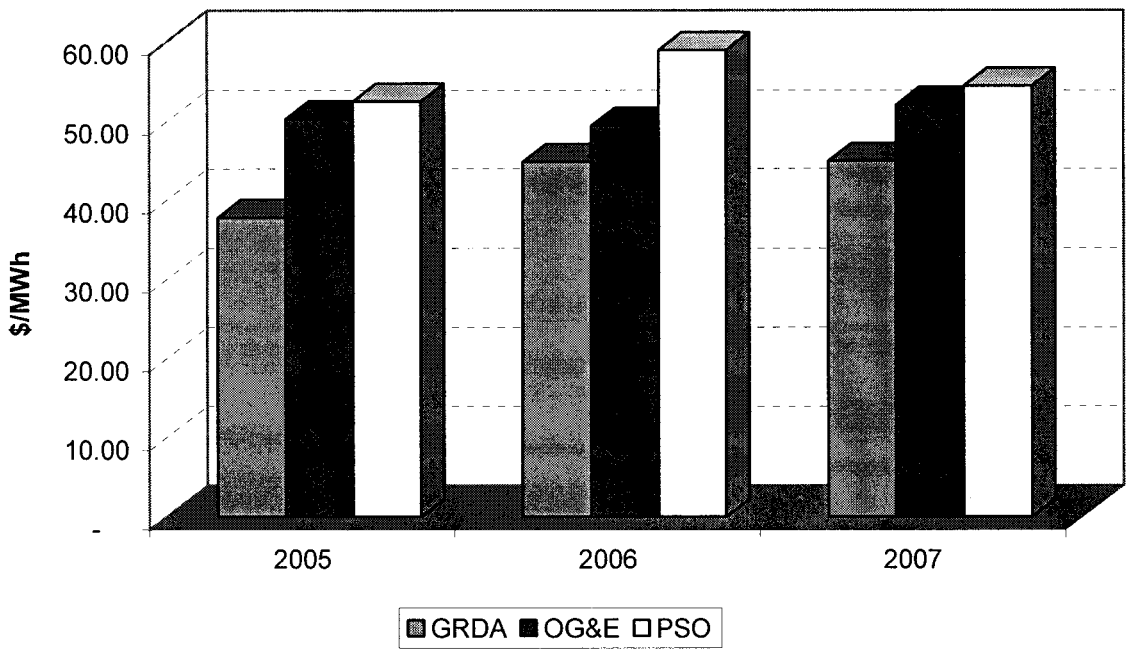
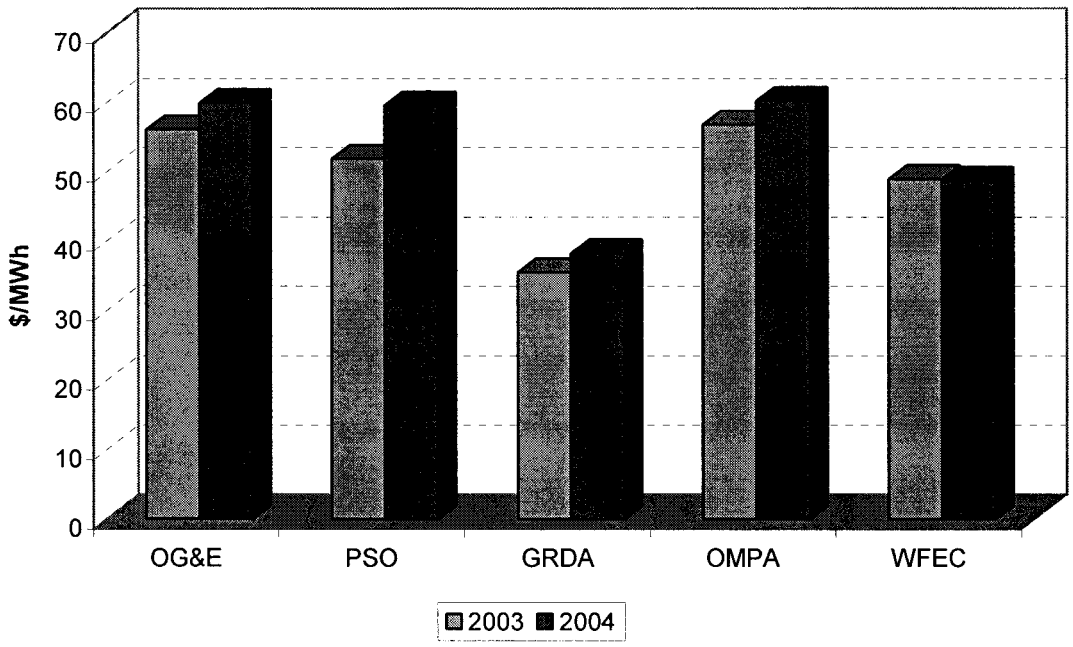


Figure 28 – Average Cost of Power ($/MWh)[28]



[27] OG&E and PSO data from FERC Form 1, Sales of Electricity by Rate Schedules, p. 304.
[28] Table ES-2, *Ninth Electric System Planning Report* prepared by the Staff of the Public Utility Division, Oklahoma Corporation Commission, December 20, 2006, p. 3.

Given the current resource mix for OG&E and PSO, it is expected that GRDA, with the acquisition of Redbud, will continue to offer competitive rates.

Redbud's cost of power is expected to be competitive with similar projects in the U.S., and GRDA is expected to continue to offer competitive rates with its surrounding utilities.

With Redbud, GRDA also diversifies its resource mix and has the ability to reduce its exposure to greenhouse gas costs from the Coal-Fired Complex should future greenhouse gas emission regulations be implemented.

Section 10 Conclusions

1) The purchase cost is reasonable as compared to similar projects in the U.S.

2) Redbud uses proven technology, design and equipment. Forecast availability and reliability levels are reasonable.

3) The proposed organization and staffing plan for the Facility will provide the technical expertise, experience, training and capabilities to perform required O&M activities consistent with industry standards.

4) All necessary, material environmental permits for Redbud have been obtained.

5) For the period from October 1, 2008 through September 30, 2009, GRDA will be able to receive up to 457 MW of its share of Redbud output on a firm basis into the GRDA system, except that for the period from June 1, 2009 through August 31, 2009, GRDA will be able to receive only 339 MW on a firm basis. SPP is currently studying 307 MW of long-term firm transmission service from Redbud to the GRDA system, which would be in addition to the 150 MW that GRDA already has.

6) There should be adequate gas available in the market meeting desired specifications to fuel Redbud and there is a low probability of delivery constraints.

7) The projected cost of power is expected to be competitive with similar projects in the U.S. and represents both the lowest cost alternative for GRDA and an environmentally prudent resource.

8) Agreements are in place that include sufficient provisions for the effective operation and maintenance of the Facility. GUERNSEY is not providing an opinion as to legality or enforceability of the Agreements.

9) The assumptions contained within the projected operating results, including information regarding plant outages, are reasonable, based upon typical power generation industry benchmarks and historical results.

10) The expected useful life of the plant is expected to be at least 30 years, which is beyond the term of the bonds.

Appendix A Acronyms

AEP	American Electric Power
AGM	Assistant General Manager
APA	Asset Purchase Agreement
CEMS	Continuous Emissions Monitoring Systems
CFC	Coal-Fired Complex
CP	coincident peak
EPA	Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
GEG	Greenhouse Gas Emissions
GRDA	Grand River Dam Authority
HRSG	Heat Recovery Steam Generator
IA	Interconnection Agreement
KAMO	KAMO Electric Cooperative, Inc.
kW	kilowatt
kWh	kilowatt-hour
LTSA	Long-Term Service Agreement
MDQ	Maximum Daily Quantities
MESO	Municipal Electric Systems of Oklahoma
MGD	Million Gallons per Day
MW	Megawatt
MWh	Megawatt-hour
N/A	Not Applicable
NAES	North American Energy Services
NCP	non-coincident peak
NERC	North American Electric Reliability Corporation
NPC	National Petroleum Council
O&M	Operations and Maintenance
O&O	Ownership and Operating Agreement
OAEC	Oklahoma Association of Electric Cooperatives
OATT	Open Access Transmission Tariff
OCWUT	Oklahoma City Water Utility Trust
ODEQ	Oklahoma Department of Environmental Quality
OG&E	Oklahoma Gas & Electric
OGT	ONEOK Gas Transportation, LLC
OMPA	Oklahoma Municipal Power Agency
PM_{10}	Particulate Matter of less than 10 micron size
PSA	Purchase & Sale Agreement
PSI	Pyschrometric Systems, Inc.
SCR	Selective Catalytic Reduction
SPP	Southwest Power Pool
TSA	Transportation Service Agreement

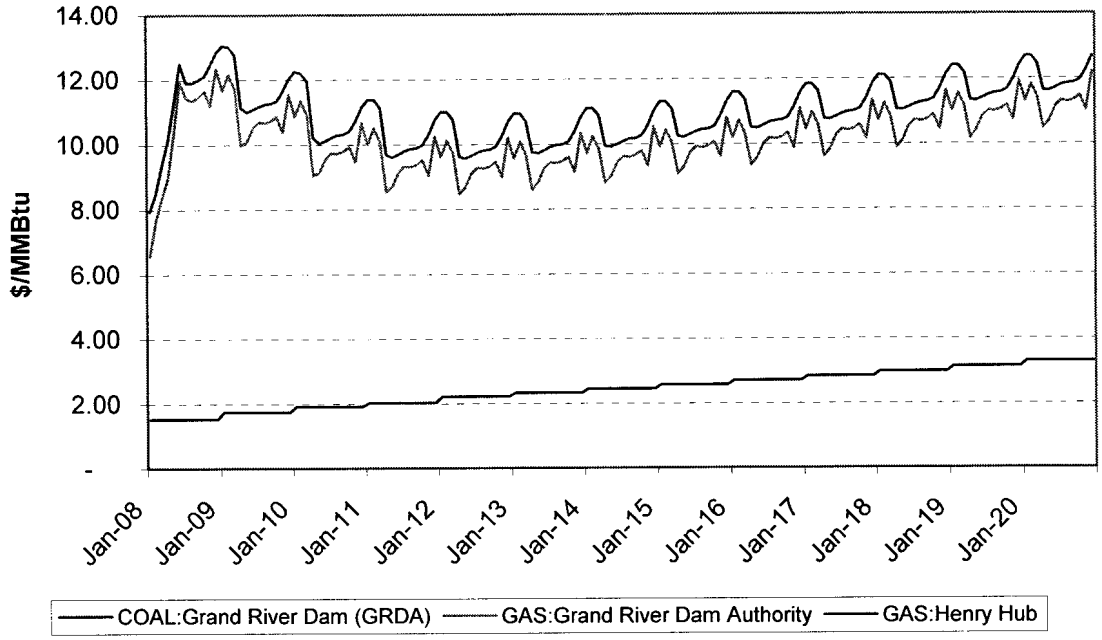
Appendix B Production Cost Modeling Assumptions

The production cost modeling of the GRDA system and Redbud integration was performed using Ventyx's (formerly NewEnergy Associates) PowerBase™ and PROMOD IV® software and MarketVision™ Data supplemented as described below.

General Assumptions

- Study period is 2008-2018
- Load, including firm off-system sales, based on 2007 GRDA Load Forecast (master).xls.
    - 3% transmission losses added to GRDA load excluding third party sales.
    - 0% transmission losses added to third party sale projections.
- Hourly load profile based on GRDA's net system hourly loads for 12-months ending 10-2007
- Henry Hub natural gas prices are based on NYMEX gas futures settled July 11, 2008.
    - GRDA gas price based on Oneok pricing point; using Ventyx's MarketVision™ June 2008 update for the basis between Henry Hub and Oneok.
- Coal prices provided by Charles Barney of GRDA on June 12, 2008.
    - 2008 $1.53/MMBtu
    - 2009 $1.75/MMBtu
    - Escalate at 10% from 2009-2010, 10% from 2011-2012; 5% annual escalation all other years

Figure 29 – Fuel Price Assumptions



Units / Transactions Assumptions

Table 22 – Unit Maximum and Minimum Capacities

Unit	Max Capacity (MW)	Min Capacity (MW)
Coal Fired Complex #1	490.0	196.0
Coal Fired Complex #2	297.0	133.7
Pensacola	125.0	11.1
Kerr	114.0	2.5
Salina	259.8	77.9
Redbud #1	108.0	54.0
Redbud #2	108.0	54.0
Redbud #3	108.0	54.0
Redbud #4	108.0	54.0

- Fixed and Variable O&M escalated at PowerBase™ O&M inflation rate (3% per year); values are PowerBase™ defaults
- Pensacola and Kerr are energy limited based on monthly average production from 1998-2007 (10-year average) provided by GRDA.
- Salina modeled with a 60% pumping efficiency factor

Coal-Fired Complex

- Use 1 MW/min ramp rate as recommended by Charles Barney.
- Uses PowerBase™ defaults for other cost information

Redbud

- Heat rate information is the same used by OG&E in the O&O discussions. Uses incremental heat rate points from OG&E's January 16, 2008 performance test.
- Ownership transferred January 1, 2009
- Operating Ranges as shown in Table 23

Table 23 – Operating Ranges (MW) for a Redbud Unit

	GRDA Only	OG&E Only	OMPA Only	Total
Operating Maximum	108.0	153.0	39.0	300.0
Beginning of Duct-Firing	83.2	117.8	30.0	231.0
End of Base Block	82.8	117.3	29.9	230.0
Operating Minimum	54.0	76.5	19.5	150.0

Spinning Reserve Requirements for GRDA

- Assumed to be 17 MW for study period. Can only be provided by GRDA 1 and Redbud Units.

GRDA Only Case (No Market Sales)

- Only GRDA loads and resources dispatched (i.e., GRDA resources dispatched to serve GRDA loads with no market sales)
- Market price set at $160/MWh, escalated at 3% per year, (for dispatch purposes) to ensure resources are maximized to meet load.
    - Calculated market price based on heat rate * Henry Hub gas price
        - On-peak 8.5 MMBtu/MWh; Off-peak 5.5 MMBtu/MWh

Regional

- Economic dispatch of the entire SPP service area in PROMOD IV®.

Appendix C Financial Forecast Assumptions

General Assumptions

- Study period is 2008-2018
- Inflation rate is 2.5% per year
- 38 days of coal stock maintained
- Accounts receivable modeled as 9.85% of revenues
- Prepayments modeled as 2.9% of O&M expense
- Accounts payable modeled as 14% of expenses excluding depreciation expense
- Interest rate for (1) restricted funds investment and (2) general operating funds is 4%
- Desired DSC of 1.15
- New bonds assumed to be issued in June of applicable year
- Interest rate for new bond is 5%
- Major maintenance costs for CFC and other extraordinary maintenance costs provided by GRDA

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE AMENDED AND RESTATED GENERAL BOND RESOLUTION

The Authority proposes to amend and restate the General Bond Resolution as described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Proposed Amendment of General Bond Resolution". The following is a general summary of certain provisions of the proposed amended and restated General Bond Resolution. This summary is not considered to be a full statement of the terms of the proposed amended and restated General Bond Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. Further, the currently proposed amended and restated General Bond Resolution is subject to further change. A copy of the currently proposed amended and restated General Bond Resolution may be obtained from the Authority on request.

Certain Definitions

"*Accreted Value*" means with respect to any Capital Appreciation Bonds and to any Convertible Capital Appreciation Bonds prior to the related Current Interest Commencement Date, (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds or Convertible Capital Appreciation Bond, and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates.

"*Act*" means the Grand River Dam Authority Act, Title 82, Oklahoma Statutes 2001, Sections 861 *et seq.*, and all laws supplemental thereto or amendatory thereof.

"*Aggregate Debt Service*" for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds; provided, however, that for purposes of estimating Aggregate Debt Service for any future period, any Option Bonds Outstanding during such period shall be assumed to mature on the stated maturity date thereof. For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds and Convertible Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest and Principal Installments in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds or Convertible Capital Appreciation Bonds.

"*Annual Budget*" means the annual budget, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided by the Resolution.

"*Assumed Rate*" means, with respect to a Series of Variable Interest Rate Bonds, for the purposes of the relevant computations required by the definitions of Debt Service and Debt Service Reserve Requirement, the rate established for such computation in writing by an Authorized Officer; provided, however, that the Assumed Rate shall not be less than the lesser of the average rate on the SIFMA Index during the 12 full calendar months or during the 60 full calendar months immediately preceding the date on which such computation is made; provided further, however, that for Bonds the interest on which is not intended to be excluded from gross income for Federal income tax purposes, the One-Month LIBOR Rate shall be used in the foregoing computation in lieu of the SIFMA Index.

"*Authority*" means the Grand River Dam Authority, a governmental agency and body politic and corporate of the State created pursuant to the Act, its successors and their assigns.

"*Authorized Officer*" means the Chairman, Vice Chairman, Secretary, any Assistant Secretary or General Manager of the Authority, or any other officer or employee of the Authority authorized by resolution to perform the act or sign the document in question.

"*Balloon Indebtedness*" means any Bonds the principal of which, in accordance with the terms of such Bonds, is due and payable in any one Fiscal Year either by reason of the stated maturity date of such Bonds or, with respect to any Bonds to be retired by Sinking Fund Installments, pursuant to any Sinking Fund Installment (treating the principal due on the final maturity date after all prior Sinking Fund Installments have been satisfied as a Sinking Fund Installment for this purpose), in an amount that exceeds 25% of the total principal amount of the Series of which such Bonds form a part.

"*Bond*" or "*Bonds*" shall mean (i) any bond or bonds, as the case may be, authenticated and delivered under and Outstanding pursuant to the Resolution and (ii) any Prior Bond or Prior Bonds, as the case may be, heretofore issued under and outstanding pursuant to the Prior Resolution.

"*Bondholder*" or "*Holder of Bonds*" or "*Holder*" shall mean any person who shall be the registered owner of any Bond or Bonds.

"*Bond Registrar*" means the Bond Trustee and any other bank or trust company organized under the laws of any state or national banking association appointed by the Authority to perform the duties of Bond Registrar enumerated in the Resolution.

"*Bond Trustee*" means the Bond Trustee appointed pursuant to Article IX, and its successor or successors and any other entity which may at any time be substituted in its place pursuant to the Resolution.

"*Capital Appreciation Bonds*" means any Bonds hereafter issued as to which interest is payable only at the maturity or prior redemption of such Bonds. For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default as provided in Section 8.01 of this Resolution or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the Authority or the Bond Trustee any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"*Construction Fund*" means each Construction Fund established pursuant to the Resolution or all of them, as appropriate.

"*Construction Fund Trustee*" means each Construction Fund Trustee appointed pursuant to the Resolution, and its successor or successors and any other entity which may at any time be substituted in its place pursuant to the Resolution, or all of them, as appropriate.

"*Convertible Capital Appreciation Bonds*" means any Bonds hereafter issued as to which interest is payable only following the Current Interest Commencement Date for such Bonds, as set forth in the

Supplemental Resolution under which such Bonds are issued, and at the maturity or prior redemption of such Bonds. For the purposes of (i) receiving payment of the Redemption Price if a Convertible Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Convertible Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default as provided in the Resolution or (iii) computing the principal amount of Bonds held by the registered owner of a Convertible Capital Appreciation Bond in giving to the Authority or the Bond Trustee any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Convertible Capital Appreciation Bond shall be deemed to be its Accreted Value.

"*Credit Facility Reimbursement Obligation*" shall have the meaning given to such term in the provisions of the Resolution summarized under "Reimbursement Obligations" below.

"*Current Interest Commencement Date*" means the date specified in a Supplemental Resolution as the date on and from which interest on the Accreted Value of Convertible Capital Appreciation Bonds issued under such Supplemental Resolution will thereafter accrue and be payable on the dates specified in such Supplemental Resolution and otherwise as if such Bonds were Interest Bearing Bonds.

"*Debt Service*" for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Debt Service Account made from the proceeds of Bonds or Subordinated Indebtedness and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof. The following shall apply for purposes of the foregoing calculation:

(i) Interest during any period on a Series of Variable Interest Rate Bonds will be computed by assuming (1) that the rate of interest borne by such Series of Variable Interest Rate Bonds during such period is equal to the Assumed Rate, or (2) to the extent the Authority has entered into an interest rate swap agreement with respect to all or a portion of a Series of Variable Interest Rate Bonds, such Series of Variable Interest Rate Bonds or portion thereof will bear interest during such period at a rate equal to the rate payable by the Authority in accordance with such interest rate swap agreement.

(ii) It shall be assumed that Balloon Indebtedness shall be amortized, at the option of the Authority, (1) on an approximately level debt service basis over a period ending no later than the final maturity date of any Bonds of the Series of which such Balloon Indebtedness forms a part, commencing on any date within the 12 full calendar months following the date of issue of such Balloon Indebtedness, (2) on an approximately level debt service basis over the period during which both such Balloon Indebtedness and all other Bonds remain Outstanding, commencing on any date within the 12 full calendar months following the date of issue of such Balloon Indebtedness, (3) on an approximately level debt service basis over a period of approximately 25 years, commencing on any date within the 12 full calendar months following the date of issue of such Balloon Indebtedness, or (4) in such other manner as determined by the Authority, taking into consideration all of the Authority's outstanding debt, future financing plans,

and any other factor that might be taken into consideration in determining the appropriate amortization for the Authority's debt.

(iii) The principal and interest portions of the Accreted Value of Capital Appreciation Bonds and Convertible Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest and Principal Installments in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds or Convertible Capital Appreciation Bonds.

"*Debt Service Account*" means the Debt Service Account in the Debt Service Fund established by the Resolution.

"*Debt Service Fund*" means the Debt Service Fund established by the Resolution.

"*Debt Service Reserve Account*" means the Debt Service Reserve Account in the Debt Service Fund established by the Resolution.

"*Debt Service Reserve Requirement*" means, as of any date of calculation, an amount equal to the maximum aggregate Debt Service for any Fiscal Year thereafter, or for the balance of the then current Fiscal Year) on all Bonds then Outstanding; provided, however, that such amount shall be reduced upon the issuance of each Series of Bonds the interest on which, at the time they are issued, is intended to be excluded from gross income for Federal income tax purposes, to the extent any deposit from the proceeds of such Bonds with respect to the Debt Service Reserve Requirement exceeds the least of (i) 10% of the aggregate principal amount of the Bonds of such Series upon original issuance or, in the event of more than a *de minimis* amount of original issue discount or premium on any such Bonds, 10% of the issue price (net of pre-issuance accrued interest) of such Bonds upon original issuance (determined based on Code principles), (ii) as of the original issuance of such Series of Bonds, the maximum aggregate Debt Service in any Fiscal Year (including the then current Fiscal Year) on all such Series of Bonds originally issued, or (iii) as of the original issuance of such Series of Bonds, 125% of the average of the Debt Service during any Fiscal Year (including the then current Fiscal Year) on all such Series of Bonds originally issued. The following shall apply for purposes of the foregoing calculation:

(i) Interest during any period on a Series of Variable Interest Rate Bonds will be computed by assuming (1) that the rate of interest borne by such Series of Bonds during such period is equal to the Assumed Rate, or (2) to the extent the Authority has entered into an interest rate swap agreement with respect to all or a portion of a Series of Variable Interest Rate Bonds, such Series of Variable Interest Rate Bonds or portion thereof will bear interest during such period at a rate equal to the rate payable by the Authority in accordance with such interest rate swap agreement;

(ii) It shall be assumed that Balloon Indebtedness shall be amortized, at the option of the Authority, (1) on an approximately level debt service basis over a period ending no later than the final maturity date of any Bonds of the Series of which such Balloon Indebtedness forms a part, commencing on any date within the 12 full calendar months following the date of issue of such Balloon Indebtedness, (2) on an approximately level debt service basis over the period during which both such Balloon Indebtedness and all other Bonds remain Outstanding, commencing on any date within the 12 full calendar months following the date of issue of such Balloon Indebtedness, (3) on an approximately level debt service basis over a period of approximately 25 years, commencing on any date within the 12 full calendar months following the date of issue of such Balloon Indebtedness, or (4) in such other manner as determined by the

Authority, taking into consideration all of the Authority's outstanding debt, future financing plans, and any other factor that might be taken into consideration in determining the appropriate amortization for the Authority's debt.

(iii) There shall be excluded from the calculation of the Debt Service Reserve Requirement the Debt Service on any Bonds as to which the Authority has elected pursuant to the Resolution that the Debt Service Reserve Account shall not apply.

The amount of the Debt Service Reserve Requirement to be on deposit in the Debt Service Reserve Account shall be satisfied by a deposit of either moneys and/or Investment Securities or a Reserve Policy in accordance with the requirements of the Resolution.

"*Defeasance Securities*" means each of the following if and to the extent the same shall not be subject to redemption prior to their maturity at the option of anyone other than the holder thereof:

(i) Any Government Obligations.

(ii) To the extent not constituting Government Obligations, obligations of the Government National Mortgage Association, the Federal Financing Bank, the Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Farmers Home Administration, Federal Home Loan Mortgage Association, Export Import Bank of the United States, United States Postal Service, or any other agency or instrumentality of the United States of America or any corporation wholly owned by the United States of America, which obligations are not subject to redemption prior to maturity at the option of anyone other than the Holder thereof.

(iii) Obligations of the Federal National Mortgage Association.

(iv) Any evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in clause (i), (ii) or (iii) hereof held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the obligations described in clause (i), (ii) or (iii) hereof, as the case may be, and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated.

(v) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i), (ii) or (iii) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i), (ii) or (iii) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in

this clause (v) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (v), as appropriate.

(vi) Any agreements with insurance companies or other financial institutions, or subsidiaries or affiliates thereof (hereinafter in this clause (vi) referred to as "Providers"), (a) whose outstanding unsecured senior indebtedness or claims-paying ability, as the case may be, shall be rated, or who shall have a "financial programs rating" or other equivalent rating, in the highest whole rating category, without regard to any qualifier, by each Rating Agency or (b) whose obligations under such agreements or contracts shall be unconditionally guaranteed by another insurance company or other financial institution, or subsidiary or affiliate thereof, whose outstanding unsecured senior indebtedness or claims-paying ability, as the case may be, shall be rated, or who shall have a "financial programs rating" or other equivalent rating, in the highest whole rating category, without regard to any qualifier, by each Rating Agency, pursuant to which agreements or contracts the Provider shall be absolutely, unconditionally and irrevocably obligated to repay the moneys invested by the Authority and interest thereon at a guaranteed rate, without any right of recoupment, counterclaim or set off. The Provider may have the right to assign its obligations under any such agreement to any other insurance company or other financial institution, or subsidiary or affiliate thereof; provided, however, that such assignee also shall be an insurance company or other financial institution, or subsidiary or affiliate thereof, satisfying the requirements set forth in either subclause (a) or subclause (b) of the preceding sentence.

(vii) Any obligations that would result in the rating of the relevant defeasance escrow in the highest whole rating category, without regard to any qualifier, by each Rating Agency.

(viii) With respect to any Bonds, any other obligations specified in the Supplemental Resolution authorizing such Bonds.

"*Enhancement Facility*" means any letter of credit, standby purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any other agreement, securing, providing liquidity for, supporting or enhancing Outstanding Bonds or Subordinated Indebtedness, or any combination of the foregoing, or any agreement relating to the reimbursement thereof whether or not such instrument or agreement has been drawn upon, obtained by the Authority.

"*Event of Default*" shall have the meaning given to such term in the provisions of the Resolution summarized under "Events of Default" below.

"*Fiduciary*" or "*Fiduciaries*" means the Bond Trustee, the Construction Fund Trustees, the Bond Registrar, the Paying Agents and the Depositaries, or any or all of them, as may be appropriate.

"*Fiscal Year*" means, at any time, the then current annual accounting period of the Authority for its general accounting purposes.

"*Fitch*" means Fitch, Inc., its successors and assigns and if such corporation shall be dissolved or liquidated or shall no longer issue ratings on obligations similar to the Bonds, "Fitch" shall be deemed to refer to any other nationally recognized securities rating organization (other than Moody's or S&P) designated by the Authority, by written notice to the Bond Trustee.

"*Fuel Hedge*" means a price hedging arrangement entered into by the Authority with respect to its fuel costs.

"*Funds*" or "*Accounts*" means the funds or accounts, including subaccounts, established pursuant to the Resolution.

"*Generally Accepted Accounting Principles*" means accounting principles, standards, methods and terminology followed and construed, as nearly as practicable, in conformity with the pronouncements of the Financial Accounting Standards Board (or any successor), the Governmental Accounting Standards Board (or any successor), the International Accounting Standards Board (or any successor or any other nationally or internationally recognized accounting standards, as determined by the Authority, in each case as amended from time to time.

"*General Reserve Account*" shall mean the General Reserve Account in the General Reserve Fund established by the Resolution.

"*General Reserve Fund*" shall mean the General Reserve Fund established by the Resolution.

"*Government Obligations*" means each of (i) direct obligations of the United States of America for the full and timely payment of which the full faith and credit of the United States of America is pledged and (ii) obligations issued by an entity controlled or supervised by and acting as an instrumentality of the United States of America, the full and timely payment of the principal of, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any securities described in clause (i) or (ii) issued or held in book-entry form on the books of the Department of Treasury of the United States of America).

"*Interest Bearing Bonds*" means Bonds as to which interest is payable on each Interest Payment Date.

"*Interest Payment Date*" means for a Series of Bonds, each interest payment date therefor, commencing on such date, as shall be specified therefor in the Supplemental Resolution authorizing such Bonds.

"*Investment Securities*" means and includes any investments that are at the time legal (whether specified, permitted or not prohibited by law) for investment of the Authority's funds and are allowed pursuant to the Authority's investment policy, if any, as in effect on the date of such investment.

"*Liquidity Facility Reimbursement Obligation*" shall have the meaning given to such term in the provisions of the Resolution summarized under "Reimbursement Obligations" below.

"*Moody's*" means Moody's Investors Service, Inc., its successors and assigns and, if such corporation shall be dissolved or liquidated or shall no longer issue ratings on obligations of a type similar to the Bonds, "Moody's" shall be deemed to refer to any other nationally recognized securities rating organization (other than S&P or Fitch) designated by the Authority, by written notice to the Bond Trustee.

"*Net Revenues*" for any period means the Revenues during such period, determined on an accrual basis, plus (x) the amounts, if any, paid from the Rate Stabilization Account into the Revenue Fund during such period (excluding from (x) amounts included in the Revenues for such period representing interest earnings transferred from the Rate Stabilization Account to the Revenue Fund pursuant to the Resolution) and minus (y) the sum of (a) Operating Expenses during such period, determined on an

accrual basis, to the extent paid or to be paid from Revenues and (b) the amounts, if any, paid from the Revenue Fund into the Rate Stabilization Account during such period.

"*One-Month LIBOR Rate*" means the daily reference rate most recently published as of the most recent date on such date by the British Bankers' Association, or any successor, of the interest rate at which banks offer to lend unsecured funds to other banks in the London interbank market. If the Authority determines and notifies the Bond Trustee in writing that use of the One-Month LIBOR Rate would violate any applicable law or regulation, or if the British Bankers' Association (or any successor) shall cease publishing such rate, then the Authority shall choose a new rate which is most comparable to the One-Month LIBOR Rate and provide written notice to the Bond Trustee of such choice.

"*Operating Expenses*" means all actual operation and maintenance costs of the System paid or incurred by the Authority in any particular Fiscal Year or period to which said term is applicable or charges made therefor during such Fiscal Year or period, as determined in conformity with Generally Accepted Accounting Principles, including amounts reasonably required to be set aside in reserves for items of Operating Expenses the payment of which is not then immediately required.

Operating Expenses include, but are not limited to, amounts payable under Enhancement Facilities pursuant to the Resolution; net payments under Fuel Hedges, other than Settlement Amounts relating thereto; costs of purchased power and transmission service; fees and expenses of the Fiduciaries; and any other current expenses or obligations required to be paid by the Authority under the provisions of the Resolution or by law, all to the extent properly allocable to the System.

Operating Expenses do not include any payments under a Qualified Hedge Agreement; any Settlement Amounts payable under a Fuel Hedge; unrealized gains and losses from investments, Qualified Hedge Agreements and Fuel Hedges; costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to or retirements from the System which under Generally Accepted Accounting Principles are properly chargeable to the capital account or the reserve for depreciation; losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the System; or such property items, including taxes and fuel, which are capitalized pursuant to the then existing accounting practices of the Authority.

"*Opinion of Bond Counsel*" means an opinion in writing signed by an attorney or firm of attorneys, of recognized standing in the field of law relating to municipal bonds, selected by the Authority for the purpose of rendering advice with respect to the validity of, and/or the exclusion from gross income for Federal income taxation purposes of the interest on, any Series of Bonds.

"*Option Bonds*" means Bonds which by their terms may be tendered by and at the option of the Holder thereof for payment prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Holder thereof.

"*Outstanding,*" when used with reference to Bonds, shall mean, as of any date of calculation, Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

(i) Bonds cancelled by the Bond Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be

redeemed, notice of such redemption shall have been given as provided by the Resolution or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Resolution, unless proof satisfactory to the Bond Trustee is presented that any such Bonds are held by a bona fide purchaser in due course; and

(iv) Bonds deemed to have been paid as provided by the Resolution.

"*Parity Obligations*" shall mean (i) any net amount (other than any Settlement Amount) due to a Qualified Hedge Provider under a Qualified Hedge Agreement relating to Bonds; and (ii) any Reimbursement Obligation relating to Bonds to the extent determined by the Authority pursuant to the Resolution, in each case to the extent a certified copy thereof has been delivered to the Bond Trustee to the extent required by the Resolution.

"*Paying Agent*" means any bank or trust company organized under the laws of any state of the United States or any national banking association designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

"*Principal Installment*" means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due whether by their terms or at the option of the Holder on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the Resolution of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, plus such applicable redemption premiums, if any, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

"*Prior Bonds*" means all "Bonds" as defined in and issued pursuant to the Prior Resolution.

"*Prior Resolution*" means Resolution No. 4800 Providing for the Issuance of Revenue Bonds (General Bond Resolution) adopted by the Board of Directors of the Authority on March 6, 1987, as amended and supplemented in accordance with the terms thereof on or prior to the effectiveness of the amended and restated General Bond Resolution.

"*Prudent Utility Practice*" means at a particular time any of the practices, methods and acts, which, in the exercise of reasonable judgment in the light of the facts (including, but not limited to, the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts. In evaluating whether any manner conforms to Prudent Utility Practice, there shall be taken into account (i) the nature of the Authority under the laws of the State and the statutory duties and responsibilities thereof, and (ii) in the case of any facility jointly owned, the applicable ownership agreement among the owners of the facility.

"*Qualified Hedge Agreement*" means, to the extent from time to time permitted by law, with respect to any Series of Bonds or Subordinated Indebtedness, any financial arrangement (i) which is entered into by the Authority with an entity that is a Qualified Hedge Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar, forward rate, future rate, swap (such swap may be used in an amount equal either to the principal amount of such Series of Bonds or Subordinated Indebtedness as may be designated or a notional principal amount corresponding to all or a portion of the principal amount of such Series of Bonds or Subordinated Indebtedness), asset, index, price or market linked transaction or agreement, or other exchange or rate protection transaction agreement, or similar transaction (however designated), or any combination thereof, or any option with respect to any of the foregoing, executed by the Authority, (iii) which has been designated as a Qualified Hedge Agreement with respect to such Series of Bonds or Subordinated Indebtedness in a written determination signed by an Authorized Officer and delivered to the Bond Trustee, and (iv) which contains such terms addressing the posting and holding of collateral, if any, and such other terms as may be determined by the Authority.

"*Qualified Hedge Provider*" means, with respect to a Qualified Hedge Agreement, subject to any higher ratings requirement imposed by the Supplemental Resolution under which a Series of Bonds or Subordinated Indebtedness is issued, an entity whose rating with respect to its senior, long term, unsecured debt obligations or deposits, or whose financial program, counterparty, or claims paying ability ratings, at the time of the execution of such Qualified Hedge Agreement, is at least in the third highest whole rating category, without regard to any qualifier, by each Rating Agency (or whose payment obligations under such Qualified Hedge Agreement are guaranteed or insured by such an entity); provided, however, that in the event such entity (or guarantor or insurer, as applicable) shall fail to maintain the foregoing rating, the Qualified Hedge Agreement shall provide for such entity (or guarantor or insurer, as applicable) to post collateral in the form of Investment Securities in respect of any Settlement Amount that may become due to the Authority under the terms of the Qualified Hedge Agreement, such Settlement Amount and the value of any posted collateral to be determined with such frequency as the Authority may determine.

"*Qualified Reserve Policy Provider*" means (i) with respect to an insurance policy or surety bond, an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated not lower than the second highest rating category by any Rating Agency, (ii) with respect to a surety bond, letter of credit or other credit facility, a bank, trust company or national banking association which has an outstanding unsecured, uninsured and unguaranteed debt issue which is rated not lower than the second highest rating category by any Rating Agency and (iii) with respect to any other credit support or mechanism, shall have qualifications reasonably comparable to the foregoing; provided, however, that if the ratings mentioned in (i), (ii) or (iii) are lower than the second highest rating category but not lower than the third highest rating category by any Rating Agency, such provider shall nonetheless be deemed to be a Qualified Reserve Policy Provider but the Reserve Policy provided by it shall be valued at 75% of the full amount that may be drawn thereunder.

"*Rate Stabilization Account*" means the Rate Stabilization Account established in the General Reserve Fund by the Resolution.

"*Rating Agency*" means, at any particular time, each of Fitch, Moody's and S&P, and any other nationally recognized securities rating organization (other than Fitch, Moody's and S&P) designated by the Authority by written notice to the Bond Trustee, in each case which is maintaining a rating on the Bonds at the request of the Authority.

"*Rebate Account*" means, with respect to a Series of Bonds, the Rebate Account established in the Revenue Fund pursuant to the Resolution.

"*Redemption Price*" means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Resolution.

"*Refunding Bonds*" means all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance by the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds by the Resolution.

"*Reimbursement Obligation*" shall have the meaning given to such term in the provisions of the Resolution summarized under "Reimbursement Obligations" below.

"*Reserve Policy*" means any insurance policy, surety bond, letter of credit, other credit facility or other credit support agreement or mechanism obtained by the Authority from a Qualified Reserve Policy Provider to satisfy its obligation to fund the Debt Service Reserve Requirement for a Series of Bonds. The Reserve Policy shall provide that amounts may be drawn thereunder by the Bond Trustee (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from the Debt Service Reserve Account of the Debt Service Fund and applied to the payment of a Principal Installment of or interest on any Bonds and such withdrawal cannot be met by amounts on deposit in the Debt Service Reserve Account.

"*Resolution*" means the General Bond Resolution, as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms of the Resolution.

"*Revenue Fund*" means the Revenue Fund established by the Resolution.

"*Revenues*" means (i) all revenues, income, rents and receipts derived by the Authority from or attributable to the ownership and operation of the System, including all revenues attributable to the System or to the payment of the costs thereof received by the Authority under any contract for the sale of power, energy, transmission or other service from the System or any part thereof or any contractual arrangement with respect to the use of the System or any portion thereof or the services, output or capacity thereof, (ii) the proceeds of any insurance, including insurance covering business interruption loss relating to the System, or of contractor's performance or guarantee bonds or other assurances of completion or levels of performance with respect thereto, (iii) the applicable portion of any condemnation awards in connection with the System, (iv) interest received on any moneys or securities held pursuant to the Resolution, and any net gains from any investment thereof, which are required to be paid into the Revenue Fund or General Reserve Fund, all of clauses (i) through (iv) above as determined in accordance with Generally Accepted Accounting Principles, and (v) net receipts of the Authority under any Qualified Hedge Agreement entered into in connection with the ownership and operation of the System or with respect to a Series of Bonds or Subordinated Indebtedness issued pursuant to the Resolution.

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns and, if such corporation shall be dissolved or liquidated or shall no longer issue ratings on obligations of a type similar to the Bonds, "S&P" shall be deemed to refer to any other nationally recognized securities rating organization (other than Fitch or Moody's) designated by the Authority, by written notice to the Bond Trustee.

"*Series*" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Resolution or the Supplemental Resolution authorizing such Bonds as a separate Series (or, if so provided by such Supplemental Resolution, subseries) of Bonds, or any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

"*Settlement Amount*" means the net amount, if any, that may become due from a party under a Qualified Hedge Agreement or Fuel Hedge, other than scheduled payments thereunder. Where a Settlement Amount is to be amortized pursuant to the terms of a Qualified Hedge Agreement or Fuel Hedge, the term "Settlement Amount" shall refer to any amortizing payments of such Settlement Amount that are then due and payable.

"*SIFMA Index*" means the Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date for which such Index was published or such other weekly high grade index comprised of seven day, tax exempt variable rate demand notes as may be produced by Municipal Market Data, or its successor, or as otherwise designated by the Securities Industry and Financial Markets Association, or its successor.

"*Sinking Fund Installment*" means, with respect to a Series of Bonds issued pursuant to the Resolution, an amount so designated which is established pursuant to the Resolution.

"*State*" means the State of Oklahoma.

"*Subordinated Indebtedness*" shall mean any evidence of debt referred to in, and complying with, the provisions of the Resolution.

"*Subordinated Indebtedness Account*" shall mean the Subordinated Indebtedness Account established in the Resolution.

"*Subordinated Obligations*" shall mean (i) any net amount due to a Qualified Hedge Provider under a Qualified Hedge Agreement relating to Subordinated Indebtedness, (ii) any Reimbursement Obligation relating to Subordinated Indebtedness to the extent determined by the Authority pursuant to the Resolution, (iii) any Settlement Amount due to a Qualified Hedge Provider under a Qualified Hedge Agreement relating to Bonds, (iv) any Reimbursement Obligation relating to Bonds to the extent determined by the Authority pursuant to the Resolution, and (v) any Settlement Amount due to a provider of a Fuel Hedge, in each case to the extent a certified copy thereof has been delivered to the Bond Trustee to the extent required by the Resolution.

"*Supplemental Resolution*" means any resolution supplemental to or amendatory of the Resolution, adopted by the Authority in accordance with the Resolution.

"*System*" means the entire electric power and energy system of the Authority, including without limitation all property, facilities, rights and interests of whatever nature, and whether in existence or hereafter acquired, used or useful for the production, transmission, transformation and distribution of electric power and energy and for the general plant of the Authority allocable thereto, or otherwise related to such system. Notwithstanding the foregoing, such term shall not include any property, facilities, rights or interests of the Authority which the Authority determines, prior to the acquisition of the same, shall not constitute part of the System for purposes of the Resolution.

"*System Costs*" means all of the costs, expenses and liabilities of whatever nature paid (including prepaid) or incurred, or expected to be paid (including prepaid) or incurred, by or on behalf of the Authority in connection with, or otherwise allocable by the Authority to, the System, however classified under Generally Accepted Accounting Principles, and which at the time are specifically or generally permitted or not prohibited by State law to be funded with the proceeds of Bonds or Subordinated Indebtedness, including without limitation reimbursements to the Authority for any of the foregoing theretofore paid by or on behalf of the Authority and deposits to any Fund or Account established by or pursuant to the Resolution.

"*Tax Agreement*" means the tax compliance agreement or similar agreement executed by the Authority in connection with the issuance of a Series of Bonds, the interest on which is intended to be excluded from gross income for Federal income tax purposes.

"*Trustee*" means the Bond Trustee or Construction Fund Trustee, or all of them, as the context shall require.

"*Valuation Date*" means with respect to any Capital Appreciation Bonds, and to any Convertible Capital Appreciation Bonds prior to the related Current Interest Commencement Date, the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values are assigned to such Capital Appreciation Bonds or Convertible Capital Appreciation Bonds.

"*Variable Interest Rate Bond*" means a Bond not bearing interest throughout its term at a specified rate or specified rates determined at the time of issuance of the Series of Bonds of which such Bond is one.

Pledge of the Resolution

The Bonds are special obligations of the Authority payable solely from and secured solely by a pledge of (i) the Revenues and all rights to receive the same, and (ii) all Funds and Accounts (except any Construction Funds and Rebate Accounts) established by the Resolution, and each Construction Fund, but only with respect to the Bonds funding such Construction Fund, including the investment income, if any, thereof.

Issuance of Bonds Other Than Refunding Bonds

Under the Resolution, the Authority may issue one or more Series of Bonds at any time for the purpose of paying all or a portion of the System Costs, the proceeds of which, including accrued interest, are to be applied simultaneously with the delivery of such Bonds as provided in the Supplemental Resolution authorizing such Series. Bonds of each Series may be issued upon receipt by the Trustee of the following:

(a) A copy of the Supplemental Resolution authorizing such Bonds, certified by an Authorized Officer, together with any certificate of determination — determining details of such Bonds pursuant to authority to do so delegated to any officers or employees of the Authority pursuant to Supplemental Resolution — accompanying such Supplemental Resolution;

(b) A written order as to the delivery of such Bonds, signed by an Authorized Officer;

(c) A certificate of an Authorized Officer setting forth for any period of 12 consecutive calendar months within the 24 calendar months next preceding the date of the authentication and delivery of such Series of Bonds (A) the Net Revenues for such period and (B) the Aggregate Debt Service during the period so selected with respect to all Series of Bonds which were then Outstanding, and showing that the Net Revenues for such period plus amounts available for transfer to the Revenue Fund from the General Reserve Fund in each month during such period (other than amounts deposited into the General Reserve Fund from Revenues during such period) are at least equal to 1.0 times the Aggregate Debt Service for such period with respect to such Bonds which were then Outstanding;

(d) An Opinion of Bond Counsel to the effect that (i) the Authority has the right and power under the Act as amended to the date of such Opinion to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Resolution is required that has not been obtained; (ii) the Resolution creates the valid pledge and assignment which it purports to create of the Revenues and all rights to receive the same, and certain moneys, securities, Funds and Accounts held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution; and (iii) the Bonds of such Series are valid and binding obligations of the Authority as provided in the Resolution and enforceable in accordance with their terms, and are entitled to the benefits of the Resolution and of the Act as amended to the date of such Opinion, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with the Resolution, provided, however, that such Opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization, or other laws affecting creditors' rights, or the application of principles of equity relating to or affecting the enforcement of contractual obligations, and other customary exceptions, and need not express any opinion as to the availability of any particular remedy;

(e) The amount, if any, to be deposited in the Debt Service Reserve Account; and

(f) Except in the case of Refunding Bonds, a certificate of an Authorized Officer stating that either (A) no Event of Default has occurred and is continuing under the Resolution or (B) the application of the proceeds of sale of such Series of Bonds as required by the Supplemental Resolution will cure any such Event of Default.

Issuance of Refunding Bonds

The Authority may issue one or more Series of Refunding Bonds to refund any Outstanding Bonds (including outstanding Prior Bonds) of one or more Series or one or more maturities within a Series, or any Subordinated Indebtedness. Refunding Bonds of each Series issued to refund Outstanding Bonds shall be issued upon receipt by the Bond Trustee (in addition to the documents required for other Bonds as described under "Issuance of Bonds Other Than Refunding Bonds" above) of the following:

(a) Irrevocable instructions to the Bond Trustee, satisfactory to it, to give due notice of any redemption of the Bonds to be refunded on a redemption date or date specified in such instructions.

(b) If the Bonds to be refunded do not mature or are not by their terms subject to redemption within the next succeeding 60 days, irrevocable instructions to the Bond Trustee, satisfactory to it, to give due notice of the defeasance as provided for in the defeasance provisions of the Resolution (summarized under "Defeasance" below) to the Holders of the Bonds being refunded.

(c) Either (A) moneys in an amount sufficient to effect payment of principal and interest at maturity, or of the applicable Redemption Price of the Bonds to be refunded together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Bond Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (B) Defeasance Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any moneys, as shall be necessary to comply with the

provisions of the defeasance provisions of the Resolution, which Defeasance Securities and moneys shall be held in trust and used only as provided by such provisions.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds for the purposes of making deposits in such Funds and Accounts under the Resolution as shall be provided by the Supplemental Resolution authorizing such Series of Refunding Bonds and shall be applied to the refunding purposes thereof in the manner provided in said Supplemental Resolution.

Reimbursement Obligations

The Authority may enter into agreements with the issuer of any Enhancement Facility providing for, among other things: (i) the payment of fees, costs, expenses and, to the extent permitted by law, indemnities to such issuer, its parent and its assignees and participants in connection with such Enhancement Facility, (ii) the terms and conditions of such Enhancement Facility and the Bonds or Subordinated Indebtedness to which the Enhancement Facility relates, and (iii) the security, if any, to be provided for such Enhancement Facility. Any such agreement may provide for the purchase of Bonds to which the Enhancement Facility relates by the issuer of such Enhancement Facility, with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions of any Bonds so purchased, as shall be specified by the Supplemental Resolution authorizing the issuance of such Bonds.

The Authority may, in an agreement with the issuer of any Enhancement Facility, agree to directly reimburse such issuer (or its assignees and participants, or any agent for the issuer or its assignees) for amounts paid by the issuer of the Enhancement Facility for the payment of the principal of, interest on, and Redemption Price or purchase price of Bonds under the terms of such Enhancement Facility (together with interest thereon, if any, and the amounts and obligations described in the next following two paragraphs, a "Reimbursement Obligation"), whether evidenced by an obligation to reimburse such issuer that is separate from the Authority's obligations on Bonds (a "Credit Facility Reimbursement Obligation") or by modified debt service obligations on Bonds acquired by such issuer (a "Liquidity Facility Reimbursement Obligation"). Notwithstanding anything to the contrary contained in this subsection (b), no Reimbursement Obligation shall be created, for purposes of the Resolution, until amounts are paid under the related Enhancement Facility.

Any Credit Facility Reimbursement Obligation may include interest calculated at a rate higher than the interest rate on the related Bonds. Payments pursuant to any advance, term loan or other principal amortization requirements in reimbursement of any such advance or term loan also shall constitute Credit Facility Reimbursement Obligations.

Any Liquidity Facility Reimbursement Obligation evidenced by Bonds of a Series may include interest calculated at a rate higher than the interest rate on other Bonds of such Series. Payments of differential and/or excess interest amounts also shall constitute Liquidity Facility Reimbursement Obligations.

Any Enhancement Facility also may provide for the payment of any fees, costs, expenses, indemnification or other obligations (but not including the obligations contemplated by the three preceding paragraphs) to any provider thereto, its parent and its assignees and participants or any agent therefor.

Any such Enhancement Facility shall be for the benefit of or secure only such Series of Bonds or portions thereof as shall be specified in the applicable Supplemental Resolution, and the related Credit

Facility Reimbursement Obligations and Liquidity Facility Reimbursement Obligations shall constitute Parity Obligations or Subordinated Obligations to the extent (i) permitted by the definitions thereof and (ii) provided by such Enhancement Facility or Supplemental Resolution, and otherwise shall be further subordinated to both Parity Obligations and Subordinated Obligations, in each case unless and except to the extent constituting an Operating Expense.

Parity and Subordinated Obligations

A copy, certified by an Authorized Officer, of each Parity Obligation other than Bonds, and of each Subordinate Obligation other than Subordinated Indebtedness, to which the Bond Trustee is not a party shall be delivered to the Bond Trustee.

Funds and Accounts

The Resolution establishes the following Funds and Accounts for the application of Revenues:

FUNDS	HELD BY
Revenue Fund (which may include Rebate Accounts)	Authority
Debt Service Fund (consisting of the Debt Service Account, a Debt Service Reserve Account, and a Subordinated Indebtedness Account)	Bond Trustee
General Reserve Fund (consisting of a General Reserve Account and a Rate Stabilization Account)	Authority

In addition to the above, the Authority may from time to time establish or cause the Bond Trustee to establish, as applicable, one or more accounts and/or subaccounts in the above-described Funds and Accounts.

The Supplemental Resolution authorizing a Series of Bonds for a purpose authorized by the Resolution may establish one or more Construction Funds, any of which may include separate accounts, to be held by one or more Construction Fund Trustees.

Construction Funds

There shall be paid into the Construction Funds the amounts required to be so paid by the provisions of the General Bond Resolution and any Supplemental Resolution, and there may be paid into any Construction Fund, at the option of the Authority, any moneys received for or in connection with the System by the Authority from any other source, unless required to be otherwise applied as provided by the Resolution.

Each Construction Fund Trustee will pay System Costs from the respective Construction Fund to or for the account of the Authority, upon the requisitions of the Authority therefor. The completion of acquisition or construction of any addition to the System shall be evidenced by a certificate or certificates of an Authorized Officer which shall be filed with the applicable Construction Fund Trustee, stating (i) that such addition has been acquired or completed, (ii) the date of such acquisition or completion, and (iii) the amount, if any, required in the opinion of the signer or signers for the payment of any remaining part of the System Costs to be paid from the respective Construction Fund. Upon the filing of such certificate, the balance in such Construction Fund in excess of the amount, if any, stated in such certificate shall be transferred by the Construction Fund Trustee in the following order of priority:

First, upon the direction of an Authorized Officer, to one or more Rebate Accounts, the respective amounts set forth in such direction;

Second, upon the direction of an Authorized Officer, to a different Construction Fund for application to the payment of System Costs; and

Third, to the General Reserve Fund; provided, however, that no such transfer to the General Reserve Fund shall be made unless the Construction Fund Trustee shall have received an Opinion of Bond Counsel to the effect that such transfer shall not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes.

To the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of Principal Installments of and interest on the related Bonds when due.

Flow of Funds

All Revenues shall be promptly deposited by the Authority upon receipt to the credit of the Revenue Fund. The Authority may establish in the Revenue Fund a Rebate Account with respect to any Series of Bonds or Subordinated Indebtedness. Moneys on deposit in the Rebate Account shall be applied by the Authority to make payments to the Department of the Treasury of the United States at such times and in such amounts as the Authority shall determine in accordance with the applicable Tax Agreement to be required by the Code to be rebated or paid to such Department with respect to each Series of Bonds or Subordinated Indebtedness, the interest on which is excludable from gross income for Federal income tax purposes, and to pay costs incident to such determination including but not limited to the costs of rebate consultants. Moneys which an Authorized Officer determines to be in excess of the amount required to be so rebated shall be deposited either in the Revenue Fund or in any Construction Fund.

From the Revenues first deposited in the Revenue Fund in each calendar month, the Authority shall retain in the Revenue Fund (other than any Rebate Accounts) a sum or sums which, together with any amount therein not set aside as a general reserve for Operating Expenses, is equal to the expected Operating Expenses for such calendar month. The Authority may also, from time to time, set aside additional amounts in the Revenue Fund (other than in or from any Rebate Accounts) as a general reserve for Operating Expenses; provided, however, that the total amount of such reserve accumulated from Revenues held at any time shall not exceed 20% of the amount included in the Annual Budget for Operating Expenses for the then current Fiscal Year. Such amounts shall be paid out from time to time by the Authority for Operating Expenses.

Amounts in the Revenue Fund (other than any Rebate Accounts) are to be transferred to the following Funds and Accounts, to the extent available and subject to the provisions described above, to the Bond Trustee or the Authority, as the case may be, for deposit in the following Funds and Accounts, such application to be made in such manner so as to assure good funds in such Funds and Accounts when needed for the purposes thereof:

1. *to the Debt Service Fund*, pro rata on the basis of the amounts required for credit to the Debt Service Account, the amount, if any, required so that the balance in said Account shall equal the amount required for the payment of the Principal Installments and Redemption Price, if any, of and interest on Bonds, and the amount, if any, required for the payment of any Parity Obligations, in each case by no later than the time the next payment therefor is required to be made from the Debt Service Account pursuant to the Resolution;

2. to the extent not expected by the Authority to be required to make deposits required by subparagraph (1) above, *to the Debt Service Fund*, for credit to the Debt Service Reserve Account, the amount required to satisfy any deficiencies in the Debt Service Reserve Account;

3. to the extent not expected by the Authority to be required to make deposits required by subparagraph (1) or (2) above, *to the Debt Service Fund*, for credit to the Subordinated Indebtedness Account, the amount, if any, required so that the balance in said Account shall equal the sum of the amounts required for the payment of principal or sinking fund installments, if any, of and premiums, if any, and interest on Subordinated Indebtedness, whether as a result of maturity or prior call for redemption, as required by the resolution, indenture or other instrument authorizing such Subordinated Indebtedness, and any Subordinate Obligations in each case by no later than the time the next payment therefor is required to be made from the Subordinated Indebtedness Account pursuant to the Resolution;

4. to the extent not expected by the Authority to be required to make deposits required by subparagraph (1), (2) or (3) above, *to the Rebate Accounts,* if any, such respective amounts as may be required for the purposes thereof; and

5. to the extent not expected by the Authority to be required to make deposits required by subparagraph (1), (2), (3) or (4) above, *to the General Reserve Fund*, the amount, if any, determined to be transferred thereto.

Application of Debt Service Account

The Bond Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each Interest Payment Date for any of the Bonds the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Bond Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of Bonds purchased for retirement and the redemption premiums, if any, on any Bonds to be redeemed to the extent not included in Principal Installments or funded from proceeds of Bonds or from the General Reserve Fund pursuant to the Resolution.

The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Fund and applied to the payment of interest on the Bonds of such Series (or Refunding Bonds issued to refund such Bonds) as the same becomes due and payable.

In the event of the refunding of any Bonds, the amounts accumulated in the Debt Service Account with respect to Principal Installments of and interest on the Bonds being refunded shall be withdrawn by the Bond Trustee, upon the direction of the Authority, and held for the payment of the Redemption Price, if applicable, or the payment of principal of and interest on the Bonds being refunded. No such withdrawal, however, shall be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Resolution, and (b) the remaining amount in the Debt Service Account after such withdrawal shall not be less than the requirement of such Account pursuant to the Resolution.

The Bond Trustee is also to pay out of the Debt Service Account, on or before the date when due, each Parity Obligation.

Application of Debt Service Reserve Account

If, on the due date of any Principal Installment of or interest on any Bonds, the amount in the Debt Service Account shall be less than the amount required to be in such Account pursuant to the Resolution and there shall not be on deposit in the Subordinated Indebtedness Account or in the General Reserve Fund available moneys to cure such deficiency, the Bond Trustee shall apply amounts from the Debt Service Reserve Account to the extent necessary to cure the deficiency.

Whenever the amounts on deposit in the Debt Service Reserve Account are less than the amounts required to be on deposit therein, the Authority shall transfer amounts from the Revenue Fund, the Subordinated Indebtedness Fund or the General Reserve Fund pursuant to the Resolution, to the extent available, to the Bond Trustee for deposit into the Debt Service Reserve Account to the extent of such deficiency.

Whenever the amounts on deposit in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement, such excess shall be transferred by the Bond Trustee to the Authority, at the written direction of an Authorized Officer, for deposit into the Revenue Fund, the Debt Service Account or the General Reserve Fund; provided, however, that no such transfer to the Revenue Fund or General Reserve Fund shall be made unless the Bond Trustee shall have received an Opinion of Bond Counsel to the effect that such transfer shall not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes.

Upon the issuance of each Series of Bonds, except to the extent provided by subsection (i) of this paragraph, (i) there shall be deposited into the Debt Service Reserve Account such amount, if any, of the proceeds of such Series of Bonds as the Authority shall have specified in the respective Supplemental Resolution providing for the issuance of such Bonds, so that there shall be on deposit in the Debt Service Reserve Account an amount equal to the Debt Service Reserve Requirement immediately following the issuance of such Bonds, or (ii) if and to the extent there shall not be deposited into the Debt Service Reserve Account proceeds in the amount described in clause (i) above, then in each month, commencing with the second month which follows the month in which such Series of Bonds are issued, the Authority shall deposit into the Debt Service Reserve Account an amount which, if the same amount were so deposited into the Debt Service Reserve Account in each month thereafter until the month which is 60 months from the making of the first such deposit, there shall be on deposit in the Debt Service Reserve Account an amount not less than the Debt Service Reserve Requirement, calculated by excluding Bonds of other Series which may have been issued during such 60 month period and with respect to which deposits are then being made to the Debt Service Reserve Account in accordance with this clause (ii) and the paragraph below.

If, as of the end of each Fiscal Year or as of a date upon which there is a withdrawal from the Debt Service Reserve Account (other than earnings, profits and losses withdrawn pursuant to the Resolution), the amounts on deposit in the Debt Service Reserve Account shall be less than the Debt Service Reserve Requirement, then in each month, commencing with the second month succeeding such date, the Authority shall deposit to the Debt Service Reserve Account an amount which, if the same amount were so deposited into the Debt Service Reserve Account in each month thereafter until the month which is 60 months from the making of the first such deposit, there shall be on deposit in the Debt Service Reserve Account an amount not less than the Debt Service Reserve Requirement, calculated by excluding Bonds of other Series which may have been issued during such 60 month period and with respect to which deposits are then being made to the Debt Service Reserve Account in accordance with this paragraph and clause (ii) of the paragraph above.

In the event of the refunding of any Bonds, the Bond Trustee shall, upon the direction of the Authority, withdraw from the Debt Service Reserve Account amounts accumulated therein to pay or provide for the payment of the principal or Redemption Price, if applicable, of and interest on the Bonds being refunded, provided that such withdrawal shall not be made unless (i) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Resolution and (ii) the amount remaining in the Debt Service Reserve Account after such withdrawal shall not be less than the Debt Service Reserve Requirement.

The Authority may at any time cause to be deposited into the Debt Service Reserve Account for the benefit of the Holders of the Bonds one or more Reserve Policies in an aggregate amount at least equal to the difference between the Debt Service Reserve Requirement and the sums of moneys and/or value of Investment Securities then on deposit in the Debt Service Reserve Account, if any, and in connection therewith may cause to be withdrawn from the Debt Service Reserve Account any moneys and/or value of Investment Securities not required to cause the amounts on deposit in the Debt Service Reserve Account to at least equal the Debt Service Reserve Requirement.

In the event that the rating attributable to any Qualified Reserve Policy Provider providing a Reserve Policy held in the Debt Service Reserve Account shall fall below that required for such entity to qualify as a Qualified Reserve Policy Provider, the Authority shall within twelve months either (i) replace such Reserve Policy with a Reserve Policy from an entity that then qualifies as a Qualified Reserve Policy Provider or (ii) deposit into the Debt Service Reserve Account sufficient funds, or a combination of such alternatives, as shall provide that the amount in the Debt Service Reserve Account equals the Debt Service Reserve Requirement within a time period not longer than, and in the same manner that, would be required to restore the Debt Service Reserve Account in accordance with the Resolution.

The Authority may elect, in the Supplemental Resolution authorizing any Series of Bonds, that the Debt Service Reserve Account shall not apply to such Bonds, whereupon such Bonds shall not be deemed to be Bonds for purposes of (i) the Debt Service Reserve Account, and references in this Section to Bonds shall not be deemed to include such excluded Bonds, or (ii) the Debt Service Reserve Requirement. Such election may be made for the entire term of the Bonds or with respect to any lesser period.

Application of Subordinated Indebtedness Account

The Bond Trustee shall apply amounts in the Subordinated Indebtedness Account to the payment of the amounts required to pay principal or sinking fund installments of and interest on each issue of Subordinated Indebtedness and reserves therefor, in accordance with the provisions of, subject to the priorities and limitations and restrictions provided in, the Resolution, indenture or other instrument authorizing or securing each issue of the Subordinated Indebtedness.

If at any time the amounts in the Debt Service Account or the Debt Service Reserve Account, in the latter case after giving effect to any Reserve Policy deposited in the Debt Service Reserve Account pursuant to the Resolution, shall be less than the current requirements of such Accounts, respectively, pursuant to the Resolution and there shall not be on deposit in the General Reserve Fund, available moneys sufficient to cure such deficiencies, then the Bond Trustee shall withdraw from the Subordinated Indebtedness Account and deposit in the Debt Service Account or the Debt Service Reserve Account in that priority, as the case may be, the amount necessary (or all the moneys in said Account, if less than the amount necessary) to make up such deficiency; provided, however, that amounts on deposit in any debt service reserve established for such Subordinated Indebtedness shall not be subject to such withdrawal.

Amounts in the Subordinated Indebtedness Account which the Authority at any time determines to be in excess of the requirements of such Fund, may, at the direction of an Authorized Officer, be transferred to the General Reserve Fund.

Application of General Reserve Fund

The Authority shall transfer from the General Reserve Fund amounts in the following order of priority: (i) to the Revenue Fund the amount determined to pay or provide reserves for the payment of Operating Expenses, (ii) to the Debt Service Account and the Debt Service Reserve Account, in that priority, the amount necessary to make up any deficiencies in payments to said Accounts, and (iii) to the Subordinated Indebtedness Account, the amount necessary to make up any deficiencies of payments to said Subordinated Indebtedness Account. Any amount on deposit in the General Reserve Fund on the first day of any month and not required to meet a deficiency as required in clauses (i) through (iv) of this paragraph and not required to be applied to any other purpose may be transferred to the Revenue Fund.

Amounts in the General Reserve Fund not required to meet a deficiency as required in clauses (i) through (v) above or otherwise for transfer to the Revenue Fund shall, upon determination of the Authority, be applied to or set aside for any one or more of the following:

(a) payment into the Revenue Fund, any Construction Fund or any other Fund or Account;

(b) the purchase or redemption of any Bonds, and expenses in connection with the purchase or redemption of any Bonds, or any reserves which the Authority determines shall be required for such purposes;

(c) the purchase or redemption of any Subordinated Indebtedness, and expenses in connection with the purchase or redemption of any Subordinated Indebtedness, or any reserves which the Authority determines shall be required for such purposes;

(d) payment of the cost of any additions to the System;

(e) increases in working capital requirements;

(f) the deposit in the Rate Stabilization Account of the amount, if any, determined by the Authority to be credited to the Rate Stabilization Account;

(g) the deposit in a special account in the General Reserve Fund which may be created by the Authority for a termination or decommissioning reserve; and

(h) any other lawful purpose;

provided, however, that, subject to the provisions of clauses (i) through (iv) above of the preceding paragraph, amounts deposited in the General Reserve Fund and required by the Resolution to be applied to the purchase or redemption of Bonds shall be applied to such purpose.

Upon any purchase or redemption, pursuant to the foregoing provisions, of Bonds of any Series and maturity for which Sinking Fund Installments shall have been established, there shall be credited toward each such Sinking Fund Installment thereafter to become due an amount determined as provided in the Resolution.

The Authority may transfer from the Rate Stabilization Account to the Revenue Fund such amount and at such times as may be determined by the Authority to be so transferred.

Subordinated Indebtedness

The Authority may, at any time, or from time to time, issue Subordinated Indebtedness payable out of, and which may be secured by a pledge of and security interest on such amounts in the Subordinated Indebtedness Account or the General Reserve Fund as may from time to time be available, pursuant to the provisions of the Resolution, for the purpose of payment thereof; provided, however, that (i) such Subordinated Indebtedness shall be issued for one or more of the purposes set forth in the Resolution and the proceeds of such Subordinated Indebtedness shall be applied only for such purpose or purposes and (ii) any pledge of and security interest shall be, and shall be expressed to be, subordinate in all respects to the pledge of and security interest on the Revenues, moneys, securities and Funds and Accounts created by the Resolution as security for the Bonds and Parity Obligations; provided further, however, that any debt service reserve established for such Subordinated Indebtedness shall not be subject to the pledge of the Revenues, moneys, securities and Funds and Accounts (except the Subordinated Indebtedness Account and General Reserve Account as aforesaid) created by the Resolution as security for Bonds and Parity Obligations.

The holders of Subordinated Indebtedness or any trustee or agent therefor may not accelerate the payment thereof upon the occurrence of any default or event of default unless and until no Bonds remain Outstanding or unless the effectiveness thereof occurs after no Bonds remain Outstanding.

The holders of Subordinated Indebtedness or any trustee or agent therefor, and parties other than the Authority to other Subordinated Obligations, may not enforce any provision of the Resolution for their benefit unless and until no Bonds remain Outstanding, except by appropriate legal proceedings with respect to moneys that are available pursuant to the Resolution for the payment of such Subordinated Indebtedness and other Subordinated Obligations.

Investment of Funds

All moneys held by each Trustee under the Resolution shall be held in trust and applied only in accordance with the Resolution. The Debt Service Fund and each Construction Fund shall be a trust fund for the purposes thereof.

Moneys held in the Debt Service Account and the Debt Service Reserve Accounts shall be invested and reinvested by the Bond Trustee to the fullest extent practicable in Investment Securities which mature or are subject to redemption at the option of the holder not later than at such times as shall be necessary to provide moneys when needed for payments to be made from such Accounts, and in the case of any Debt Service Reserve Account not later than 10 years from the date of such investment unless invested under an investment agreement that permits withdrawals without penalty when needed for the purpose of such Debt Service Reserve Account.

Subject to the terms of any resolutions, indentures or other instruments securing any issue of Subordinated Indebtedness, moneys held in the Subordinated Indebtedness Account shall be invested and reinvested to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from said Fund.

Obligations purchased as an investment of moneys in any Fund or Account shall be deemed at all times to be a part of such Fund or Account; provided, however, that any net investment earnings thereon

and any profit realized from the liquidation of any such investment shall be credited to the Revenue Fund, except that earnings and profits with respect to investments in

(a) the Construction Fund shall be retained therein or, if directed in writing by an Authorized Officer, transferred to the Revenue Fund, the Debt Service Account or the General Reserve Fund,

(b) the Debt Service Account shall be retained therein or, if directed in writing by an Authorized Officer, transferred to the Revenue Fund,

(c) the Debt Service Reserve Account shall be transferred to the Revenue Fund, the Debt Service Account or the General Reserve Fund as directed in writing by an Authorized Officer, and

(d) any Rebate Accounts shall be retained in such respective Rebate Accounts;

provided further, however, that no such transfer to the Revenue Fund or General Reserve Fund pursuant to clauses (a), (b) or (c) above shall be made unless the respective Construction Fund Trustee or the Bond Trustee, as appropriate, shall have received an Opinion of Bond Counsel to the effect that such transfer shall not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes.

In computing the amount in any Fund or Account established under the Resolution, obligations purchased as an investment of moneys therein shall be valued at the amortized cost of such obligations, exclusive of accrued interest, unless such obligations do not mature or are not redeemable at the option of the holder thereof in less than seven (7) years from the date of valuation, in which case such obligations shall be valued at the amortized cost of such obligations or at the market price thereof, whichever is lower, exclusive of accrued interest. The accrued interest paid from such moneys in connection with the purchase of any obligation shall be included in the value thereof until the interest on such obligation is paid. Such computation shall be determined as of the end of each Fiscal Year or at such earlier date as may be required by the Resolution; provided, however, that if the Resolution requires any such valuation at any such earlier date in connection with the withdrawal or transfer from such Fund or Account, such valuation may be determined within any period of time prior to such date as may be determined by the Authority not exceeding two (2) calendar weeks.

Covenants of the Authority

Rates, Fees and Charges; Covenant of State

The Authority has, and will have as long as any Bonds are Outstanding, good right and lawful power to establish and collect rates, fees and charges with respect to the use and the sale of the capacity, output or services of the System subject to the terms of contracts relating thereto.

The Authority shall at all times, subject to the jurisdiction of any applicable regulatory agency, establish and use its best efforts to collect rates and charges for the use or the sale of the output, capacity or services of the System in each Fiscal Year which are reasonably expected to produce Revenues at least sufficient in each Fiscal Year, together with other available funds (including amounts on deposit in the Rate Stabilization Account), for the payment of:

(a) Operating Expenses during such Fiscal Year;

(b) the amount required to be paid during such Fiscal Year into the Debt Service Account, net of payments to the Authority under Qualified Hedge Agreements relating to the Bonds;

(c) the amount, if any, to be paid during such Fiscal Year into the Debt Service Reserve Account;

(d) the amount, if any, required to be paid during such Fiscal Year into the Subordinated Indebtedness Account, net of payments to the Authority under Qualified Hedge Agreements relating to Subordinated Indebtedness;

(e) the amount, if any, required to be deposited during such Fiscal Year in the General Reserve Fund; and

(f) the amount, if any, required to pay all other charges or liens whatsoever payable out of Revenues during such Fiscal Year.

Promptly upon any material change in the circumstances which were not contemplated at the time such rates and charges were most recently reviewed but not less frequently than once each Fiscal Year, the Authority shall review the rates and charges so established and shall, subject to any applicable regulatory authority, promptly revise such rates and charges as necessary to comply with the foregoing requirements.

The Authority will not furnish or supply or cause to be furnished or supplied any use, output, capacity or service of the System, free of charge to any person, firm or corporation, public or private.

Nothing in the Resolution shall be construed as depriving the State of its power to regulate and control the fees and/or charges to be collected for the use of power, electric energy or other services of the System. The State, in Section 868 of the Act, has pledged and agreed with the holders of Bonds and Subordinated Indebtedness that the State will not limit or alter the power vested by the Act in the Authority to establish and collect such fees and charges as will produce revenues sufficient to pay the items specified in subparagraphs (a), (b), (c) and (d) of said Section 868 or in any way to impair the rights of remedies of the holders of Bonds or Subordinated Indebtedness, or of any person on their behalf, until the Bonds and Subordinated Indebtedness, together with the interest thereon, with interest on unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, and all other obligations of the Authority in connection with the Bonds and Subordinated Indebtedness are fully met and discharged.

Creation of Liens; Sale and Lease of Property

The Authority shall not issue bonds, notes, debentures or other evidences of indebtedness of a similar nature, other than the Bonds, payable out of or secured by a pledge of or security interest in the Revenues or rights to receive the same or other moneys, securities, Funds or Accounts held or set aside by the Authority under the Resolution, and shall not create or cause to be created any lien or charge thereon, except, to the extent permitted by law, (1) evidences of indebtedness payable out of, or secured by a pledge of and security interest in, Revenues to be received after the discharge of the pledge of Revenues provided in the Resolution or (2) Subordinated Indebtedness issued in accordance with the provisions of the Resolution.

No part of the System shall be sold, leased, mortgaged or otherwise disposed of, except as follows:

The Authority may at any time and from time to time dispose of any property or facilities constituting part of the System (i) the book value of property or facilities sold or exchanged is not more than the greater of $500,000 or 1% of the book value of the assets of the System at such time, (ii) if the Authority determines that such property or facilities are not useful in the operation of the System, or (iii) the Authority determines that the sale or exchange of such property will not impair the ability of the Authority to comply during the current or any future Fiscal Year with the provisions of the Resolution. The proceeds of any such sale or exchange not used to acquire other property necessary or desirable for the safe or efficient operation of the System shall be deposited in the General Reserve Fund.

The Authority may at any time and from time to time dispose of any property or facilities owned jointly or operated cooperatively with any other entity if such disposition is required by any applicable agreement among the joint owners or cooperators.

The Authority may lease or make contracts or grant licenses for operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the System, provided that any such lease, contract, license, arrangement, easement or right does not impede the operation of the System. Any payments received by the Authority under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the System or any part thereof shall constitute Revenues.

The Authority may permanently discontinue the acquisition or construction of any portion of the System as provided by the Resolution.

Annual Budget

The Authority shall prepare, adopt and file with the Bond Trustee an Annual Budget for each Fiscal Year which shall set forth in reasonable detail the estimated Revenues and Operating Expenses and other expenditures of the System for such Fiscal Year. The Authority also may at any time prepare, adopt and file with the Bond Trustee an amended Annual Budget for the remainder of the then current Fiscal Year.

Operation and Maintenance of System

The Authority will at all times use its best efforts to operate the System properly and in an efficient and economical manner, consistent with Prudent Utility Practice, and will use its best efforts to maintain, preserve, reconstruct and keep the same, with the appurtenances, in good repair, working order and condition, and will from time to time make all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted, in each case subject to the jurisdiction of any applicable regulatory authority.

Maintenance of Insurance

The Authority will use its best efforts to keep or cause to be kept the properties of the System which are of an insurable nature and of the character usually insured by those operating properties similar to the System insured against loss or damage by fire and from other causes customarily insured against and in such amounts as are usually obtained. The Authority will also use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to the System. The Authority shall only be required to obtain such insurance if the same is available at reasonable rates and upon reasonable terms and conditions.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the Authority, or may be in the form of self insurance by the Authority. The Authority agrees that it will establish pursuant to a Supplemental Resolution such fund or funds or reserves as are necessary to provide for its share of any such self insurance.

Accounts and Reports

The Authority will keep or cause to be kept proper books of records and accounts relating to the System and the Funds and Accounts established under the Resolution shall during regular business hours be subject to the inspection of the Bond Trustee and the Holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

The Authority shall annually, within 120 days after the close of each Fiscal Year, file with the Bond Trustee, and otherwise as provided by law, a financial statement in reasonable detail for the preceding Fiscal Year showing the Revenues, all expenditures from the Revenues for operation and maintenance of the System and other expenditures from the Revenues applicable to the System, together with a balance sheet in reasonable detail reflecting the financial condition of the Authority, including the balances of all funds relating to the System as of the end of such Fiscal Year, which financial statement and balance sheet shall be accompanied by a certificate of an Authorized Officer stating whether or not, to the knowledge of the signer, the Authority is in default with respect to any of the covenants, agreements or conditions on its part contained in the Resolution, and if so, the nature of such default.

The Authority shall file with the Bond Trustee (i) forthwith upon becoming aware of any Event of Default or default in the performance by the Authority of any covenant, agreement or condition contained in the Resolution, a certificate signed by an appropriate Authorized Officer and specifying such Event of Default or default and (ii) within 120 days after the end of each Fiscal Year, a certificate signed by an appropriate Authorized Officer stating that, to the best of such Authorized Officer's knowledge and belief, the Authority has kept, observed, performed and fulfilled each and every one of its covenants and obligations contained in the Resolution and there does not exist at the date of such certificate any default by the Authority under the Resolution.

The reports, statements and other documents required to be furnished to the Bond Trustee pursuant to any provisions of the Resolution shall be available for inspection of Bondholders at the office of the Bond Trustee and shall be mailed to each Bondholder who files a written request therefor with the Authority. The Authority may charge for such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

Events of Default

The following events constitute Events of Default under the Resolution:

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

(b) default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment, when and as such interest installment or Sinking Fund Installment shall become due and payable;

(c) default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution or contained in the

Bonds, and such default shall have continued for a period of 60 days after written notice specifying such default and requiring that it shall have been remedied is given to the Authority by the Bond Trustee or to the Authority and to the Bond Trustee by the Holders of not less than 25% in principal amount of the Bonds Outstanding; or

(d) the Authority shall become insolvent or fail generally to pay its debts as they become due, or make any general assignment for the benefit of creditors or apply for, consent to or acquiescence in, the appointment of a trustee or receiver for itself or any part of its property, or shall take any action to authorize or effect any of the foregoing; or in the absence of any such application, consent or acquiescence, a trustee or receiver shall be appointed for it or for a substantial part of its property and shall not be discharged within a period of 30 days; or

(e) all, or any substantial part, of the property of the System shall be condemned, seized or otherwise appropriated, or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law or any dissolution or liquidation proceeding shall be instituted by or against the Authority (or any action shall be taken to authorize or effect the institution by it of any of the foregoing) and, if instituted against it, shall be consented to or acquiesced in by it, or shall not be dismissed within a period of 90 days;

If one or more Events of Default shall happen, then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Bond Trustee (by notice in writing to the Authority), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the Authority and the Bond Trustee), may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Bond Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Bond Trustee, and all other sums then payable by the Authority under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Authority or provision satisfactory to the Bond Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Bond Trustee or provisions deemed by the Bond Trustee to be adequate shall be made therefor, then and in every such case the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the Authority and to the Bond Trustee, may rescind such declaration and annul such default in its entirety, or, if the Bond Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Bond Trustee written direction to the contrary by the Holders of a majority in principal amount of the Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Remedies

If an Event of Default shall have happened and shall not have been remedied, the Authority and the Construction Fund Trustees, upon the demand of the Bond Trustee, shall pay over or cause to be paid over to the Bond Trustee (i) forthwith, all moneys, securities and funds then held by the Authority and the Construction Fund Trustees, respectively, in any Fund or Account, under the Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Bond Trustee shall apply all moneys, securities, funds and Revenues (i) received by the Bond Trustee pursuant to any right given or action taken under the provisions of the Resolution and (ii) held by the Bond Trustee pursuant and subject to the terms and conditions of the Resolution, as follows and in the following order:

(i) *Expenses of Fiduciaries*—To the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries.

(ii) *Arbitrage Rebate*—To deposit to the Rebate Accounts all amounts required to be deposited therein as determined by the Bond Trustee in compliance with applicable Tax Agreements.

(iii) *Operating Expenses*—To the payment of the amounts required for reasonable and necessary Operating Expenses and for the reasonable renewals, repairs and replacements of the System necessary in the judgment of the Bond Trustee to prevent a loss of Revenues. For this purpose the books of records and accounts of the Authority relating to the System shall at all times be subject to the inspection of the Bond Trustee and its representatives and agents during the continuance of such Event of Default.

(iv) *Principal or Redemption Price of and Interest on Parity Obligations*—To the payment of the interest and principal or Redemption Price then due on the Bonds, and the interest and principal components of other Parity Obligations, as follows:

(A) *Interest.* To the payment to the persons entitled thereto of all installments of interest on Bonds, and the interest component of any other Parity Obligation, then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference.

(B) *Principal or Redemption Price.* To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption or acceleration, and the principal component of any other Parity Obligations, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds and such principal components due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price or principal component due on such date, to the persons entitled thereto, without any discrimination or preference.

(v) *Principal or Redemption Price of and Interest on Subordinated Obligations*—To the payment of the interest and principal or redemption price then due on Subordinated

Indebtedness, and the interest and principal components of other Subordinated Obligations, as follows:

(A) *Interest.* To the payment to the persons entitled thereto of all installments of interest on Subordinated Indebtedness, and the interest component of any other Subordinated Obligations, then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Subordinated Indebtedness theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference.

(B) *Principal or Redemption Price.* To the payment to the persons entitled thereto of the unpaid principal or redemption price of any Subordinated Indebtedness which shall have become due, whether at maturity or by call for redemption or acceleration, and the principal component of any other Subordinated Obligations, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Subordinated Indebtedness and such principal components due on any date, then to the payment thereof ratably, according to the amounts of principal or redemption price or principal component due on such date, to the persons entitled thereto, without any discrimination or preference.

If and whenever all overdue installments of interest on all Bonds and Subordinated Indebtedness, together with the reasonable and proper charges, expenses and liabilities of the Bond Trustee, and all other sums payable by the Authority under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Bonds, other Parity Obligations, Subordinated Indebtedness and other Subordinated Obligations, which shall then be payable, shall either be paid by or for the account of the Authority, or provision satisfactory to the Bond Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall be made thereof, the Bond Trustee shall pay over to the Authority all moneys, securities and funds then remaining unexpended in the hands of the Bond Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Bond Trustee), and thereupon the Authority and the Bond Trustee shall be restored, respectively, to their former positions and rights under the Resolution. No such payment over to the Authority by the Bond Trustee nor such restoration of the Authority and the Bond Trustee to their former positions and rights shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

If an Event of Default shall have happened and shall not have been remedied, the Bond Trustee shall have the right to apply in an appropriate proceeding for the appointment of a receiver of the System with power to operate and maintain the System, collect, receive and apply all Revenues and prescribe rates, tolls and charges, in the same way and manner that the Authority might do. Whenever all defaults in the payment of principal of, and interest on the Bonds and all defaults under the Resolution or the Bonds shall be made good, such receiver shall be discharged by the court and shall surrender control of the System to the Authority.

If an Event of Default shall have happened and shall not have been remedied, the Bond Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than a majority in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any

power herein granted or any remedy granted under the Act, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Bond Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

All rights of action under the Resolution may be enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Bond Trustee shall be brought in its name.

The Holders of not less than 25% in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or exercising any trust or power conferred upon the Bond Trustee, provided that the Bond Trustee shall have the right to decline to follow any such direction if the Bond Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Bond Trustee in good faith shall determine that the action or proceeding so directed would involve the Bond Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

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

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

No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Bond Trustee written notice of the happening of an Event of Default, as provided in the Resolution, and the Holders of at least 25% in principal amount of the Bonds then Outstanding shall have filed a written request with the Bond Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the laws of the State or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Bond Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holder's or Holders' action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds, subject only to the provisions of the Resolution.

Nothing in the Resolution or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and premium, if any, and interest on the Bonds to the respective

Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of such Holder's Bond.

The Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Notice of Default

The Bond Trustee shall mail to each Holder of Bonds then Outstanding at such Holder's address, if any, appearing on the registry books of the Authority, written notice of the occurrence of any Event of Default; provided, however, that, except in the case of an Event of Default described in the Resolution and described in clauses (a) and (b) of this first paragraph under "Events of Default" above, the Bond Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the best interests of the Bondholders.

Supplemental Resolutions

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Authority may be adopted, which, upon the filing with the Bond Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

(a) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;

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

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

(d) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in the Resolution, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(e) To confirm, as further assurance, any pledge or assignment under and the subjection to any security interest, pledge or assignment created or to be created by, the Resolution, of the Revenues, or of any other moneys, securities, Funds or Accounts;

(f) To surrender any right, power or privilege reserved to or conferred upon the Authority by the Resolution, including without limitation any reserved rights and remedies of Bondholders or the Bond Trustee following an Event of Default;

(g) To authorize the establishment of a fund or funds to enable the Authority to self-insure against the risks and hazards relating to the System and the interests of the Authority and of the Bondholders as described in the Resolution;

(h) To authorize Subordinated Indebtedness and, in connection therewith, specify and determine any matters and things relative to such Subordinated Indebtedness which are not contrary or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Subordinated Indebtedness;

(i) To modify, amend or supplement the Resolution in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar Federal statute hereafter in effect or to permit the qualification of the Bonds or Subordinated Indebtedness for sale under the securities laws of any of the states of the United States of America, and, if the Authority so determines, to add hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar Federal statute;

(j) To comply with regulations and procedures as are from time to time in effect relating to any book entry only system, whether within or without the United States, for the registration of beneficial ownership interests in Bonds or Subordinated Indebtedness;

(k) To comply with additional requirements that a Rating Agency may impose in order to issue or maintain a rating on the Bonds, provided that any Supplemental Resolution, the purpose of which is to effect such changes shall be effective only upon delivery to the Authority and the Bond Trustee of an Opinion of Bond Counsel that such changes shall not adversely affect the validity of the Bonds or the exclusion of interest on the Bonds from the gross income of the Holders thereof for Federal income tax purposes;

(l) To modify any of the provisions of the Resolution in any other respect whatever with respect to any Bonds, provided that (i) (A) such modification relates only, and is to be effective prior to the issuance of, such Bonds, or (B) such modification relates only, and is to be effective only upon the remarketing of, such Bonds in connection with an optional or mandatory tender thereof for purchase by or on behalf of the Authority or purchase in lieu of redemption pursuant to the Resolution, and (ii) such modification is disclosed in an offering or reoffering document applicable to such issuance or remarketing; or

(m) To modify any of the provisions of the Resolution in any other respect whatever, provided that such modification shall be and shall be expressed to be, effective only after all Bonds Outstanding, and outstanding or unpaid Qualified Hedge Agreements and Reimbursement Obligations at the date of the execution and delivery of such Supplemental Resolution, shall cease to be Outstanding or owing, as the case may be.

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted by the Authority which, upon (i) the filing with the Bond Trustee of a copy thereof certified by an Authorized Officer, and (ii) the filing with the Authority of an instrument in writing made by the Bond Trustee consenting thereto, shall be fully effective in accordance with its terms:

(i) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

(ii) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to the Resolution as theretofore in effect.

Amendments

In addition to amendments described under "Supplemental Resolutions" above, any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent (i) (a) of the Holders of not less than a majority in principal amount of the Bonds Outstanding at the time such consent is given, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of not less than a majority in principal amount of the Bonds of all Series so affected, in the aggregate, and Outstanding at the time such consent is given, and (ii) in case the modification or amendment changes the terms of any Sinking Fund Installment; of the Holders of not less than a majority in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary, without its written assent thereto. For the purposes of these provisions, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Bond Trustee may in its discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be adversely affected by any modification or amendment of this Resolution and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds.

Ownership of Bonds

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

Defeasance

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of any Revenues and other moneys, securities, Funds and Accounts pledged under the Resolution and all covenants, agreements and other obligations of the Authority to the Bondholders shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed above. All Outstanding Bonds of any Series, or of any maturity within a Series, shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Bond Trustee irrevocable instructions accepted in writing by the Trustee to mail as provided in the Resolution notice of redemption of such Bonds on said date, (ii) there shall have been deposited with the Bond Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities (including any Defeasance Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Bond Trustee at the same time or on deposit with the Bond Trustee, shall be sufficient to pay when due the principal or Redemption Price and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Bond Trustee in form satisfactory to it irrevocable instructions to mail a notice to the Holders of such Bonds, at their last addresses, if any, appearing upon the registry books, that the deposit required by (ii) above has been made with the Bond Trustee and that said Bonds are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price on said Bonds. The mailing of any such notice shall not be a condition precedent to the payment of Bonds and the failure so to mail any notice shall not affect the validity of the proceedings for the payment of Bonds.

For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if, any, in accordance with the second sentence of the second paragraph of this section, the interest to come due on such Variable Interest Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such maximum rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Bond Trustee for the payment of interest on such Variable Interest Rate Bonds is in excess of the total amount which would have been required to be deposited with the Bond Trustee on such date in respect of such Variable Interest Rate Bonds in order to satisfy the second sentence of the second paragraph of this section, the Bond Trustee shall, if requested, by the Authority, pay the amount of such excess to the Authority free and clear of any trust, lien, security interest, pledge or assignment securing the Bonds or otherwise existing under the Resolution.

Option Bonds shall be deemed to have been paid in accordance with the second sentence of the second paragraph of this section only if, in addition to satisfying the requirements of clauses (i) and (iii) of such sentence, there shall have been deposited with the Bond Trustee moneys (including moneys withdrawn and deposited pursuant to the Resolution) in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Bond Trustee pursuant to the second paragraph of this section, the options originally exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph. If any portion of the moneys deposited with the Bond Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose the Bond Trustee shall, if requested by the Authority, pay the amount of such excess to the Authority free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under the Resolution.

Unclaimed Property

Any moneys held by a Fiduciary in trust for the payment and discharge of any principal or Redemption Price, if any, of or interest on the Bonds which remain unclaimed for five (5) years after the date when such principal, Redemption Price, if any, or interest shall have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five (5) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such principal, Redemption Price, if any, or interest shall become due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Authority for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Fiduciary shall, at the expense of the Authority, mail notice to the affected Bondholders, at their last addresses, if any, appearing upon the registry books, that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the date of mailing such notice, the balance of such moneys then unclaimed will be returned to the Authority; and provided further, however, that such moneys shall be paid to the State or any officer of the State, and at any time, if and to the extent required by the Uniform Disposition of Unclaimed Property Act as enacted in the State from time to time or other applicable State law.

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

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APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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Grand River Dam Authority

(A Component Unit of the State of Oklahoma)

Basic Financial Statements as of and for the Years Ended December 31, 2007 and 2006, and Independent Auditors' Report

GRAND RIVER DAM AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Grand River Dam Authority:

We have audited the accompanying basic financial statements of the Grand River Dam Authority (the "Authority"), a component unit of the State of Oklahoma, listed in the table of contents as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority at December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the Required Supplementary Information on pages 2 through 9 and 39 through 40 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

March 31, 2008

Member of
Deloitte Touche Tohmatsu

Management's Discussion And Analysis

The following discussion and analysis of the Grand River Dam Authority's ("GRDA" or the "Authority") financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2007, in comparison with the prior year financial results. Please read it in conjunction with the financial statements, which follow this section.

Using This Financial Report

This annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of the Authority funded primarily by the sale of electrical power and energy.

The state of Oklahoma reports the business-type activities of the Authority as a discretely presented major component unit.

The basic financial statements presented in this report consist of the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, the Statements of Cash Flows, and Notes to Financial Statements.

Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; Statements of Cash Flows; and Notes to Financial Statements

The Authority's Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets provide an indication of the Authority's financial health.

The Statements of Net Assets include all of the Authority's assets and liabilities, using the accrual basis of accounting as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or for other purposes.

The Statements of Revenues, Expenses, and Changes in Net Assets report all of the revenues and expenses during the time periods indicated.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income or bond proceeds and cash payments for repayment of bonds and capital additions.

The Notes to Financial Statements provide additional explanation and details about the financial information.

Financial Highlights (Unaudited)

The GRDA Board of Directors continues ongoing efforts to improve and stabilize GRDA's financial position. The Board's first action was to initiate a 4.5% power and energy base rate increase on July 1, 2004. This was the first rate increase since January 1, 1993, and was the first of two increases recommended by rate consultants. A second increase on the energy component of the base rates originally contemplated for July 1, 2005, became effective on April 1, 2006. In 2007, both rate increases were in effect for the first full year.

Of significance, throughout that time frame and continuing today, GRDA and customers work together evaluating how GRDA can best meet their future needs. The willingness of the customers of the Authority to pay the cost-of-service price increases, and to select GRDA as their long-term public-power supplier of choice, as evidenced by most signing long-term purchase and sale agreements during 2007, provides GRDA with the financial stability to obtain the resources to meet their future requirements.

The 2006 and 2007 financial improvements highlighted in the following discussions are a direct result of the deliberate actions taken by GRDA to prepare for the future.

NET ASSETS

Net Assets increased $91.1 million or by 57% in 2007, following a similar 52% increase or $54.4 million in 2006, and a 54% increase or $36.6 million during 2005. The recent changes in Net Assets are in marked contrast to financial results prior to the GRDA Board's 2004 and 2006 rate actions, discussed above, when annual increases to Net Assets averaged only $2.2 million for the five year period from 1998 through 2003. Total Assets increased $27.0 million in 2007 following an increase of $4.4 million in 2006. The increase in 2006 marked the first in several years where Total Assets and Net Utility Plant did not decline.

Current Assets increased $13.9 million or 6% during 2007 after increasing $4.7 million or 2% during 2006. During 2007, current cash and investments increased by a total of $30.3 million while the combined total of current accounts receivable and under recovered fuel costs decreased by a total of $22.5 million. In contrast, the opposite occurred during 2006, when current cash and investments decreased by a total of $26.3 million while the combined total of current accounts receivable and under recovered fuel costs increased by $18.6 million. The shift in balances reflects the collection of the power cost adjustment during 2007 for fuel and purchased power expenses paid in previous years. Inventories, including both fuel and materials and supplies, also increased by a total of $6.2 million and $12.4 million during 2007 and 2006 accounting for the remaining shift in current asset balances.

Financial Highlights

December 31, 2007, 2006 and 2005

	2007	2006	2005
Condensed Schedule of Net Assets			
Assets:			
Current assets	$ 238,279,411	$ 224,355,142	$ 219,637,633
Net utility plant	413,627,666	399,876,856	399,405,266
Restricted investments	120,151,735	120,151,735	120,151,735
Other noncurrent assets	7,027,004	7,693,303	8,471,461
Total assets	779,085,816	752,077,036	747,666,095
Liabilities:			
Current liabilities	98,373,459	98,694,983	89,386,090
Noncurrent liabilities	430,618,300	494,392,661	553,650,241
Total liabilities	528,991,759	593,087,644	643,036,331
Net Assets:			
Invested in capital assets - net	72,505,255	666,401	(80,525,056)
Restricted for:			
Debt service	42,339,465	40,479,164	38,711,816
Construction	-	-	27,500,000
Other special purposes	336,863	329,290	349,132
Unrestricted	134,912,474	117,514,537	118,593,872
Total net assets	$ 250,094,057	$ 158,989,392	$ 104,629,764
Condensed Schedule of Change in Net Assets			
Operating Revenues:			
Sales of power	$ 278,464,783	$ 276,823,553	$ 270,165,092
Other operating revenues	10,004,225	11,099,095	9,437,297
Total operating revenues	288,469,008	287,922,648	279,602,389
Non-Operating Revenues:			
Interest Income	13,690,330	12,631,718	11,755,117
Net increase (decrease) in fair value of investments	2,840,957	(171,278)	(1,967,210)
FEMA grant revenues	8,115,724	-	-
Income from non-utility operations	103,960	504,424	477,418
Deferral of costs to be recovered from future revenues	1,066,691	920,067	-
Total non-operating revenues	25,817,662	13,884,931	10,265,325
Total revenues	314,286,670	301,807,579	289,867,714
Operating Expenses:			
Fuel	(75,652,926)	(65,511,589)	(61,999,460)
Purchased power - net	(28,974,960)	(57,142,790)	(47,980,861)
Depreciation	(26,270,163)	(25,905,702)	(25,542,010)
Maintenance	(21,840,687)	(24,090,585)	(15,668,193)
Operation	(19,529,286)	(18,408,195)	(18,405,394)
Administrative and general	(15,700,875)	(16,544,857)	(20,389,494)
Total operating expenses	(187,968,897)	(207,603,718)	(189,985,412)
Non-Operating Expenses:			
Interest expense	(34,169,063)	(38,620,769)	(42,771,053)
Amortization of cost to be recovered from future revenues	-	-	(19,142,142)
Amortization of debt discount and expense	(1,828,796)	(2,008,215)	(2,177,940)
Amortization of bond premium	784,751	784,751	784,751
Total non-operating expenses	(35,213,108)	(39,844,233)	(63,306,384)
Total expenses	(223,182,005)	(247,447,951)	(253,291,796)
Net increase in net assets	$ 91,104,665	$ 54,359,628	$ 36,575,918

For the first time in several years, additions to Net Utility Plant exceeded depreciation expense during 2006, as net capital additions in excess of $26 million were slightly more than the current depreciation of $25.9 million. The net increase during 2007 was relatively substantial as capital additions in excess of $33.7 million significantly exceeded 2007 depreciation of $26.3 million. The current capital additions are discussed in the following pages in the Capital Assets section. More detailed information about changes in Net Utility Plant is also presented in the Notes to Financial Statements, Utility Plant.

Restricted Investments and other NonCurrent Assets in 2007 remained consistent with the prior year balances. Additional information about the balances is presented in the Notes to Financial Statements, Deposits and Investments, Receivables, and Costs to be Recovered from Future Revenues.

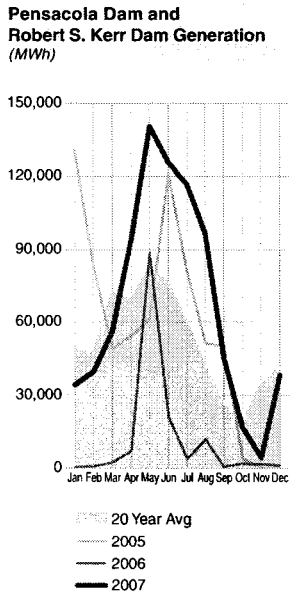
The most significant change in Net Assets continues to be attributable to the repayment of long-term debt. Total Liabilities decreased by $64.1 million or 11% during 2007 and $49.9 million or 8% during 2006, primarily due to scheduled bond principal payments of $65.0 million and $61.5 million in 2007 and 2006. More specifics about bonds outstanding and amortization of bond related expenses are presented in the Notes to Financial Statements, Bonds Payable. Accounts Payable balances in 2007 did not change significantly from prior year balances.

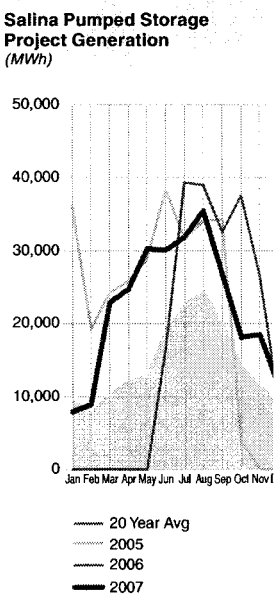
Unrestricted Net Assets—the part of net assets used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal agreements—increased by $17.4 million during 2007 after remaining relatively constant in the previous two years. The increase is directly related to the Board establishing rates sufficient to reflect GRDA cost of service. Net Assets Restricted for Debt Service increased in proportion to the increasing principal portion of sinking fund payments for repayment of long-term debt. In contrast, Net Assets Invested in Capital Assets Net of Related Debt increased by $153.0 million over the past two years and moved to a positive balance primarily as GRDA made large principal payments to bondholders of $65.0 million and $61.5 million in 2007 and 2006. The Authority paid for a significant portion of capital additions with current revenue collections instead of bond proceeds, which also contributed to the increase.

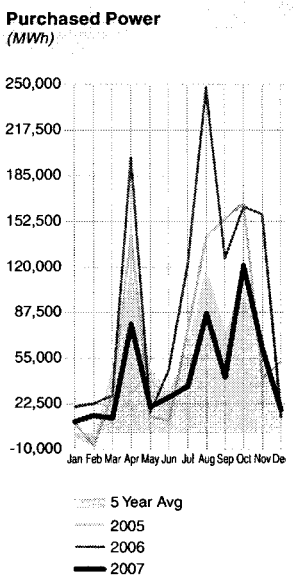
OPERATING RESULTS

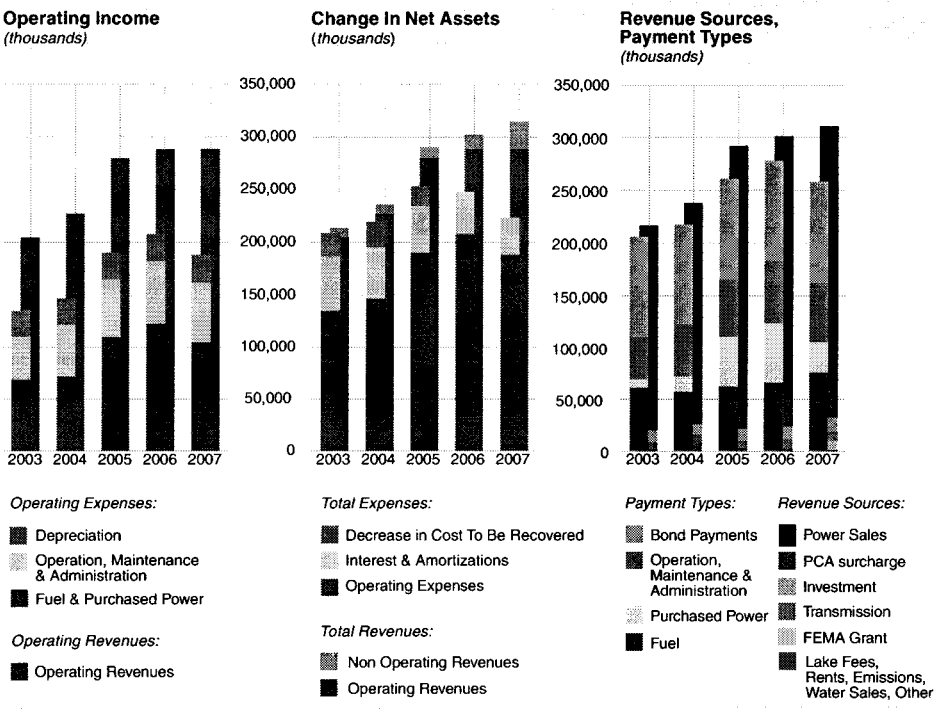
Extremes in weather conditions contribute directly to the fluctuations shown in the Sales and Resources graph during the past three years and ultimately, the financial results. One of the worst droughts in Oklahoma history began in late summer of 2005. As the graph labeled Pensacola Dam and Robert S. Kerr Dam Generation reflects, without any significant inflows into the Grand River watershed, hydroelectric generators at both the Pensacola and Kerr Dams sat idle beginning in September 2005 and continued throughout most of 2006, reducing excess sales made to the spot market. In 2007, the inflows were greater than the previous two years and provided an opportunity for an increase in spot sales over the previous two years.

Likewise, following the 2005 FERC inspection and canal repairs, the generators remained idle at the Salina Pumped Storage Project from October 2005 until June 2006 when Lake Hudson elevation levels returned to an adequate level so that water could be pumped to refill the W. R. Holway Reservoir. In 2007, an adequate water supply afforded GRDA the ability to utilize the Salina Pumped Storage Project for peaking generation.









Without adequate hydroelectric generation to help supplement the electricity produced at the GRDA Coal-Fired Complex, the Authority was forced to purchase power on the open market. As the drought wore on, GRDA's purchased power costs continued to climb to record levels in 2005, followed by even higher purchase levels during 2006. Run-of-the-river generation from Kerr and Pensacola Dams set record lows during 2006. Historically, purchases have averaged approximately 5% of total resources, although the significantly higher power purchases represented 18% of total energy resources in 2006. However in 2007, the favorable hydro conditions allowed purchased power to return to a more acceptable level of 7%.

As the Pensacola Dam and Robert S Kerr Dam Generation graph indicates, hydro inflows during 2007 provided more generation than the previous two years. The run-of-the-river generation was higher than average, and the Salina-pumped storage was available for use throughout 2007 enabling GRDA to utilize the peaking generation as needed. In addition, the Coal-Fired Complex had no major maintenance outages during 2007, and as a result, Unit #2 set record generation. The Purchased Power graph reflects how the availability of hydro and thermal generation benefits GRDA customers. The overall quantity of power purchased in 2007 was less than in the two previous years. As the graph reflects, purchases for the most part were to supplement generation during the routine spring and fall outages at the Coal-Fired Complex and across the peak summer load period.

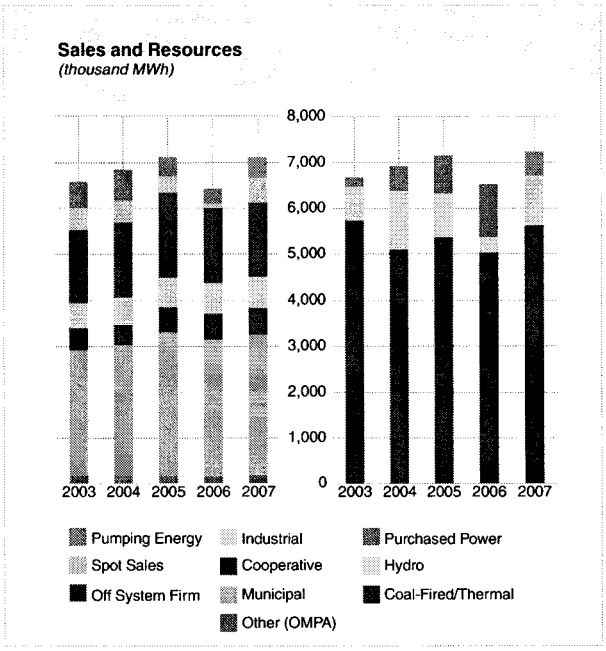
Operating Income

Operating Income increased by $20.2 million or 25% in 2007 after decreasing by $9.3 million or 10% the previous year. Operating Revenues remained fairly constant and increased by only $550 thousand in 2007 after increasing by $8.3 million during 2006, while Operating Expenses decreased $19.6 million after increasing $17.6 million during 2006.

The 2007 decrease in Operating Expenses was directly attributable to an $18.0 million net reduction in fuel and purchased power. The effect of the additional hydro and thermal generation in 2007 previously discussed, resulted in a $28.1 million reduction for purchased power, offset by a $10.1 million increase in fuel expense.

The graph labeled Operating Income indicates both operating revenues and operating expenses, and the difference in the column height reflects operating income. Operating Income is combined with other Non-operating Revenues, primarily interest and investment income to pay the Authority's expenses. As can be seen in the Change in Net Assets graph to the right of the Operating Income graph, revenues have consistently exceeded expenses since the implementation of the rate increases. The third graph, labeled Revenue Sources and Payment Types, shows the extent to which Sales of Power provide the majority of money to repay GRDA's debt and cover operating costs.

While the first two graphs reflect the income statement amounts, the third graph includes the debt payments, principal and interest, recovered through the Authority's



rates. GRDA's rate structure is based on a cost-of-service approach of which debt service payments, fuel and purchased power, and other operating expenses are the principal components. The difference in the column height of the third graph reflects the source of funds, other than bond proceeds reinvested in the system. In 2007, those excess revenues were utilized primarily to finance capital additions and inventories. A table calculating Debt Service coverage is included in the statistical section of the Authority's annual report each year.

OPERATING REVENUES

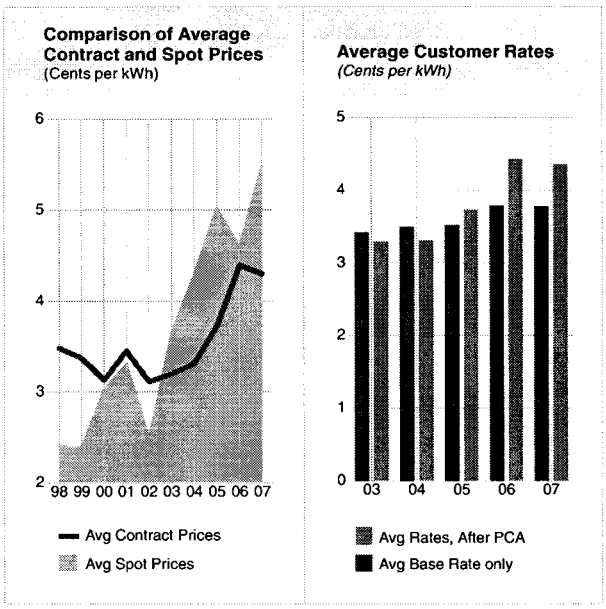
Total Operating Revenues continue to set new record highs each year, with Sales of Power driving the increases. As can be seen in the graph comparing GRDA's customer sales mix and generation resources, GRDA frequently supplements generation with purchased power in order to meet contractual requirements. GRDA's rate structure provides for the recovery of any corresponding increases in fuel or purchased power through the Power Cost Adjustment (PCA).

The Authority's power cost adjustment mechanism with customers is calculated on a 12-month rolling basis and is normally revised twice a year. Sales of Power include any PCA surcharge as the "true up" adjustment passes through the cost of the generating fuel and purchased power.

The revenues also reflect an accrual of any over or under collected fuel cost. GRDA collected surcharges for the PCA of $35.5 million and $37.0 million during 2007 and 2006. Sales of Power included a $18.4 million revenue reduction for Over Recovered Fuel Costs during 2007 and an accrual of $5.8 million of Under Recovered Fuel Costs during 2006. The 2006 record revenues were driven partially by the pass-through of fuel and purchased power costs collected through the PCA surcharge. Overall revenues were up from a combination of the PCA surcharge and higher rates even though kWh sales were slightly lower. However, 2007 record revenues included the first year with the full impact of both rate increases, while at the same time, all customer classes of loads reflected continued growth. In 2007, Sales of Power also included a $26.0 million increase in spot sales over 2006.

Even with the rate increases and collection of fuel surcharges, GRDA contract rates remain among the lowest in the nation. GRDA's competitive rate structure was a key factor in the decision of municipal customers to sign long-term, all-requirements contracts, and in the decision of industrial customers, such as Google, to select the MidAmerica Industrial Park for expansion of their business.

The graph comparing GRDA's historic average contract prices to GRDA's average spot prices for any excess energy sold at market prices, provides an indication of the competitiveness of the Authority's rates and the advantage that abundant hydro generation provides. The graph of average customer rates reflects that GRDA's average rates remain below 4.5 cents per kWh. The average rates collected in 2007 were slightly lower than the average rates collected during 2006, primarily due to a reduction in the PCA surcharge collected. That trend continues during the first half of 2008. The Authority again lowered the PCA surcharge for the first half of 2008 since the undercollected fuel charges from 2005 and 2006 were fully recovered during 2007.



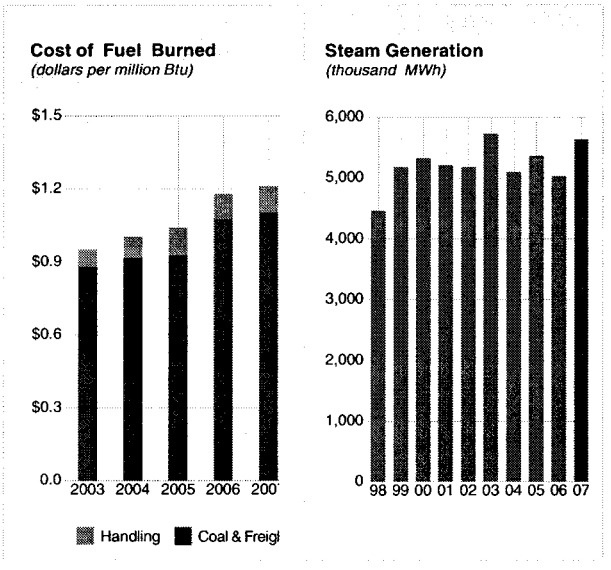
OPERATING EXPENSES

Operating Expenses decreased by $19.6 million during 2007 after increasing $17.6 million during 2006. Record purchased power drove the increases in previous years as the impact of the prolonged drought and associated lack of hydro-generation was two-fold. Not only was GRDA forced into the spot market to replace

the quantity of generation normally provided by the dams and pumped back project, but without the peaking power available, the purchases were made at high load usage periods and came at correspondingly high prices. During 2007, purchased power decreased by $28.2 million as both hydro and thermal MWhs generated were above average. In addition, GRDA made a firm purchase of power and energy from the Redbud combined cycle gas plant at a favorable price. This purchase reduced the volatility of energy prices from the spot market and also allowed GRDA to obtain a firm transmission path for the purchased energy, improving reliability.

The purchased power savings were offset to an extent by continually rising fuel costs. Coal and freight are the largest operating expenses at the Coal-Fired Complex. To help address difficulty in obtaining coal deliveries, GRDA entered into leases for additional rail cars and has continued to pursue improved coal deliveries and price protection. As the graph indicates, the rising cost of coal and freight has increased the average cost of fuel burned per MMBtu 2% and 12% in 2007 and 2006. Fuel costs increased $10.1 million and $3.5 million during 2007 and 2006. The 2007 fuel increases were attributable to both rising coal and transportation costs as well as the increase in thermal MWhs generated.

Maintenance costs were also down in 2007 from 2006 when during the 20-year outage of Unit 2, GRDA personnel along with contractors successfully completed over 600 work orders relating to several major projects. Other operating expenses remained relatively consistent with the prior year.



Significant Assets and Debt Administration

CAPITAL ASSETS

Net Utility Plant increased from $399.9 million to $413.6 million in 2007. In 2006, Net Utility Plant increased from $399.4 million to $399.9 million, or by $472 thousand. Of significance, is that after several years of decreasing net plant balances, the trend reversed in 2006. The net plant increases reflect the investments in capital assets to provide future benefits to GRDA customers offset by current year depreciation of $26.3 million and $25.9 million in 2007 and 2006. As shown in the Utility Plant Note to Financial Statements, the majority of Net Utility Plant consists of an economical mixture of hydroelectric and thermal generation resources and a transmission system for the delivery of power and energy.

The major additions during 2007 and 2006 included a large assortment of information technology projects. Projects included a rebuild of GRDA's microwave communication system, replacement of voice telecommunications, a rebuild of the network infrastructure, as well as replacing metering and software. Other projects included an upgrade of the Energy Control Center computers and the initiation of facility renovations to meet North American Electric Reliability Corporation criteria.

In addition, Unit 2 at the Coal-Fired Complex underwent the largest scheduled maintenance outage ever performed during its 20 years of operation during 2006. While the unit was out of service, capital projects included the complete replacement of tubing in the reheater section of the unit's boiler, replacement of air heater baskets and replacement of the computer control system on the unit's flue gas desulfurization unit. Upgrades continued at the Coal-Fired Complex during 2007, with a new Unit 2 turbine generator control system, a mercury monitoring system and fire suppression equipment installations.

FERC, in 2006, issued a new 30-year license to GRDA to operate the Markham Ferry Project, which includes the Robert S. Kerr Dam and Lake Hudson. In 2007, GRDA began a multi-year upgrade of Kerr Dam's four turbine-generators. The total project is anticipated to cost over $70 million and work on the units will be staggered through 2012.

Additional major additions in 2007 related to the transmission system. Lines and substations were planned in order to handle the loads of new and growing industrial customers. However, over $8 million of line reconstruction was added under emergency conditions as a result of two Oklahoma ice storms. Most of the damage to the Authority's transmission system was sustained during the January 2007 storm. Grants from the Department of Homeland Security, Federal Emergency Management Agency were recognized as non-operating revenues for reimbursements relating to the ice storm reconstruction and damage.

In January 2008, GRDA entered into an agreement with Oklahoma Gas and Electric and Oklahoma Municipal Power Authority to jointly purchase a combined-cycle gas

plant. The transaction is anticipated to be completed in late 2008 as discussed further in the Notes to Financial Statements, Subsequent Events.

RESTRICTED ASSETS

The Authority's bond resolutions require reserve funds be set aside. The General Bond Resolution requires the Bond Service Reserve account be equal to the "Maximum Aggregate Bonds Service" and the Reserve and Contingency Fund be equal to 25% of that same amount. The restricted amount of $120,151,735 includes $96,121,388 of bond service reserve and $24,030,347 reserve and contingency funds, which are the required amounts to be set aside to comply with the bond covenants.

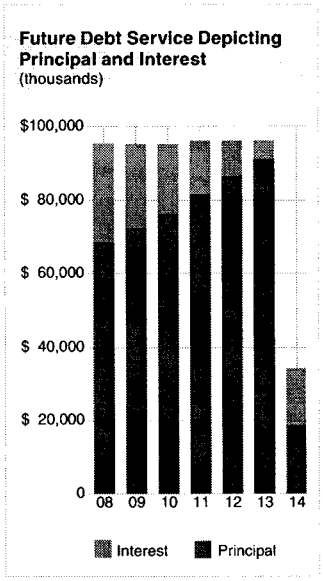
Additional amounts are restricted for the bond service sinking fund payments made to the trustee for annual principal and semiannual interest payments.

The amounts reflected as restricted for construction in 2007 relate to two different construction accounts. At the end of 2007, $2.1 million remained in the account 2002B Construction Funds. The 2002B Construction Funds were utilized for capital additions until the balance was depleted in early 2008. The other construction account balance remained at $27.5 million. As discussed further in the Notes to Financial Statements, the account was originally held by the trustee in escrow for a project that was terminated in late 2005. In March 2008, the Authority passed a resolution authorizing that the account balances be utilized for approved capital projects or to redeem outstanding bond principal. As a result, GRDA has instructed the trustee to utilize the construction account balance to make bond principal sinking fund payments for March through July 2008. The $27.5 million balance will remain restricted under General Bond Resolution 4800 until fully depleted for specified purposes, such as the bond principal payments.

The final restricted accounts for special purposes relate to wildlife mitigation pursuant to hydro licensing requirements. Each of the restrictions is discussed in further detail in the Notes to Financial Statements, Deposits and Investments.

REGULATORY ASSETS

The Authority follows Statement of Financial Accounting Standards (SFAS) No. 71 in regulatory reporting which requires utilities to match costs in the same period the revenues are collected. In 2007, the only remaining regulatory asset is the deferred interest costs related to the 2002B capital appreciation bond issue. The $3.9 million balance in Costs to Be Recovered from Future Revenues includes the cumulative deferral of interest expense net of any interest income earned on the 2002B Construction Fund Investments. The deferred asset will continue to increase annually until revenues are collected to pay the 2002B principal and cumulative interest at maturity on June 1, 2014. The 2002B Accrued Interest Payable is reflected in the financial statements as a Non-current Liability. For more detail, see the Notes to Financial Statements, Costs to be Recovered from Future Revenues.



LONG-TERM DEBT

The repayment of GRDA's outstanding bonds continued to impact the change in net assets in a positive manner by increasing the ratio of utility plant to debt. The Authority's trustee paid bondholders principal payments of $65.0 million and $61.5 million on June 1, 2007 and 2006.

As indicated in the Notes to Financial Statements, Bonds Payable, GRDA makes monthly sinking fund payments to the bond trustee which are reflected as Current Investments "restricted for bond service." The bondholders are then paid annual principal payments on June 1 and semiannual interest payments on December 1 and June 1 of each year. GRDA's debt service payments are structured to remain fairly constant at approximately $96 million per year through 2013. The principal and interest totaling approximately $34 million on the 2002B capital appreciation bonds will be repaid on June 1, 2014. The graph provides an indication of how much principal and interest are due each year until the bonds mature in 2014.

The 1993, 1995, and 2002 bonds outstanding are not subject to redemption prior to the maturity of the bonds. In conjunction with the bonds, the Authority has made certain covenants and must file continuing disclosures with bond repositories. Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings, Ltd., gave the 1995, 2002, and a portion of the 1993 issues ratings of Aaa, AAA and AAA, respectively since municipal bond insurance policies were purchased as the bonds were issued.

AMBAC Indemnity Corporation insures the Authority's $173.4 million outstanding 1995 bonds with maturities in June 2011 and 2013. During 2007, Fitch Ratings, Ltd downgraded AMBAC to a rating of AA, and all three rating agencies assigned a negative outlook.

The financial community recognized the willingness of the Board to collect sufficient rates and the willingness

of GRDA's customers to pay the cost-of-service pricing through improved ratings and outlooks. Fitch Ratings, Ltd was the first to recognize the efforts of the Authority's directors and management to improve GRDA's finances when they affirmed their A- rating and raised their outlook to positive in March 2005. In March 2006, Standard and Poor's Ratings Services reaffirmed their rating of BBB+ and improved their rating outlook from negative to stable. In January 2007, Moody's Investor Service, Inc also affirmed their A2 rating and revised their outlook on GRDA from negative to stable.

Standard and Poor's Rating Services reviewed GRDA's improving financial results and recognized the stability added by most of the municipal customers signing 35-year, all-requirements purchase and sales agreements. Following that review in October 2007, the rating agency upgraded the rating on GRDA's outstanding debt from BBB+ to A- with a positive outlook.

The rating upgrade and outlook improvements reaffirmed many of the hard financial decisions GRDA has made over the last three years to improve it's financial stability and to continue its role as a low-cost, competitive power supplier. The rating agencies continue to monitor GRDA's underlying credit and update their current outlook applicable to any ratings.

Change in Financial Position

GRDA is in a much stronger financial position than it was three years ago. Three of the Authority's priorities were to develop solutions to insufficient rates, to obtain long-term contracts to replace the relatively short customer contracts containing numerous termination clauses, and to secure resources to cover the lack of sufficient generation to meet customers' load growth.

After a decade of depleting cash and investments in order to subsidize electric rates, the impact of the rate increases has provided stable debt coverage during a three-year period marked with a historic drought, major scheduled plant maintenance outages as well as off-setting periods of heavy rainfall. Total Net Assets have almost quadrupled from $68.1 million to $250.1 million during the last three years. The Authority has paid down debt of $65.0 million and $61.5 million during 2007 and 2006.

ECONOMIC OUTLOOK

While a fundamental strength of GRDA has always been the ability to provide low-cost, reliable electricity, the real foundation is its relationship with customers, many of which have been public power partners with GRDA for over half a century. Whether on the main street of a municipal customer community that GRDA employees call home, or in the warehouse of an industrial customer, located just down the road from the Coal-Fired Complex and Transmission Headquarters, the Authority's relationships with customers are about being a good neighbor. With that as a background, GRDA's future economic outlook is always linked to customer growth.

While the dollar impacts are significant, just as important are the actions that have been taken to prepare for the future of GRDA and its customers. With a more stable financial position, GRDA focused on its public power mission and on renewing long-term relationships with customers. As a result, long-term revenue projections also became more stable as most municipal customers signed 35-year, all-requirements contracts. A stronger financial position enables the Authority to follow through with the public power commitment to protect customer's low-prices and reliable service.

In January 2008, GRDA signed an agreement to honor that commitment by joining with two other Oklahoma utilities to purchase a combined-cycle gas generation plant. One very important goal of efforts to stabilize finances and secure revenues is to enable the Authority to service the additional debt payments necessary to make such an acquisition, assuring GRDA will be able to honor commitments to customers for years to come.

Current financial projections indicate that the renewed relationships with customers and the new relationships with other Oklahoma utilities will enable GRDA to remain financially stable while it continues to offer competitively low rates to customers.

Management's Discussion And Analysis

This report is intended to provide our customers, bondholders, citizens of the state of Oklahoma, and other interested parties with a general overview of the Authority's financial position and to indicate accountability for the revenues GRDA receives.

Questions about this report or requests for additional financial information should be directed to the Authority at:

Grand River Dam Authority
PO Box 409
226 West Dwain Willis Avenue
Vinita, Oklahoma 74301-0409

GRAND RIVER DAM AUTHORITY

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS:		
Current assets:		
Cash and cash equivalents — general operating account	$ 20,506,821	$ 7,430,384
Investments	133,476,577	116,277,894
Accounts receivable — net	36,293,291	42,265,120
Accrued interest receivable	1,370,744	1,846,614
Fuel stock	20,212,456	15,940,305
Materials and supplies	25,386,608	23,485,299
Under recovered fuel costs	-	16,568,784
Prepaid assets	1,032,914	540,742
Total current assets	238,279,411	224,355,142
Noncurrent assets:		
Restricted investments	120,151,735	120,151,735
Other receivables	770,582	1,855,422
Net utility plant — at original cost less depreciation	413,627,666	399,876,856
Other noncurrent assets:		
Costs to be recovered from future revenues	3,909,498	2,842,807
Unamortized debt expense	2,313,910	2,962,060
Non-utility property — at original cost	33,014	33,014
Total other noncurrent assets	6,256,422	5,837,881
Total noncurrent assets	540,806,405	527,721,894
Total assets	779,085,816	752,077,036
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	25,510,139	31,113,736
Accrued interest payable	2,217,798	2,536,247
Bonds payable — current portion	68,780,000	65,045,000
Over recovered fuel costs	1,865,522	
Total current liabilities	98,373,459	98,694,983
Noncurrent liabilities:		
Bonds payable — net	415,773,193	479,407,817
Unamortized proceeds on debt service forward purchase agreements	6,494,651	7,693,107
Other noncurrent liabilities	2,288,155	2,442,489
Accrued interest payable	6,062,301	4,849,248
Total noncurrent liabilities	430,618,300	494,392,661
Total liabilities	528,991,759	593,087,644
NET ASSETS:		
Invested in capital assets — net of related debt	72,505,255	666,401
Restricted for:		
Debt service	42,339,465	40,479,164
Other special purposes	336,863	329,290
Unrestricted	134,912,474	117,514,537
Total net assets	$250,094,057	$158,989,392

See notes to financial statements.

GRAND RIVER DAM AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Sales of power	$ 278,464,783	$ 276,823,553
Other operating revenues	10,004,225	11,099,095
Total operating revenues	288,469,008	287,922,648
OPERATING EXPENSES:		
Fuel	(75,652,926)	(65,511,589)
Purchased power — net	(28,974,960)	(57,142,790)
Depreciation	(26,270,163)	(25,905,702)
Maintenance	(21,840,687)	(24,090,585)
Operation	(19,529,286)	(18,408,195)
Administrative and general	(15,700,875)	(16,544,857)
Total operating expenses	(187,968,897)	(207,603,718)
OPERATING INCOME	100,500,111	80,318,930
NONOPERATING REVENUES AND (EXPENSES):		
Interest income	13,690,330	12,631,718
Net increase (decrease) in the fair value of investments	2,840,957	(171,278)
FEMA Grant Revenue	8,115,724	-
Income from nonutility operations	103,960	504,424
Interest expense	(34,169,063)	(38,620,769)
Deferral of costs to be recovered from future revenues	1,066,691	920,067
Amortization of debt discount and financing costs	(1,828,796)	(2,008,215)
Amortization of bond premium	784,751	784,751
Total nonoperating revenues (expenses)	(9,395,446)	(25,959,302)
NET INCREASE IN NET ASSETS	91,104,665	54,359,628
NET ASSETS — Beginning of year	158,989,392	104,629,764
NET ASSETS — End of year	$ 250,094,057	$ 158,989,392

See notes to financial statements.

GRAND RIVER DAM AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from user charges	$ 336,467,590	$ 301,750,812
Received from FEMA - operating revenues	1,488,131	-
Payments to employees for services	(26,178,341)	(25,573,265)
Payments to suppliers for goods and services	(172,457,058)	(193,763,315)
Net cash provided by operating activities	139,320,322	82,414,232
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	(33,696,085)	(26,377,292)
Payments for retirements of utility plant	(1,171,992)	-
Received from FEMA - capital revenues	3,584,152	-
Repayment of principal	(65,045,000)	(61,510,000)
Interest paid	(28,524,978)	(32,205,732)
Net cash used in capital and related financing activities	(124,853,903)	(120,093,024)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	12,965,889	11,791,312
Purchases of securities	(42,544,242)	(26,493,019)
Proceeds from sales and maturities of securities	28,188,371	43,466,798
Net cash provided by (used in) investing activities	(1,389,982)	28,765,091
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,076,437	(8,913,701)
CASH AND CASH EQUIVALENTS — Beginning of year	7,430,384	16,344,085
CASH AND CASH EQUIVALENTS — End of year	$ 20,506,821	$ 7,430,384
NONCASH ITEMS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Noncash purchases of utility plant included in accounts payable	$ 5,152,896	
NONCASH ITEMS FROM INVESTING ACTIVITIES:		
Unrealized gain (loss) on investments	$ 2,840,957	$ (171,278)
Amortization of premiums and discounts	$ 1,855	$ 272,268
Amortization of debt service forward purchase agreements	$ 1,198,457	$ 1,198,457
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 100,500,111	$ 80,318,930
Noncash items included in net operating income:		
Income from nonutility operations	4,635,532	504,424
Depreciation	26,270,163	25,905,702
Changes in assets and liabilities:		
Receivables:		
Customers	4,061,932	(5,008,052)
Other	2,994,736	(6,764,737)
Fuel stock	(4,272,151)	(10,818,373)
Materials and supplies	(1,901,309)	(1,549,590)
Other	(742,703)	(487,172)
Accounts payable and accrued liabilities	(10,756,494)	6,068,628
Over (under) recovered fuel costs	18,434,306	(5,816,468)
Other noncurrent liabilities	96,199	60,940
Net cash provided by operating activities	$ 139,320,322	$ 82,414,232

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business — The Grand River Dam Authority (the "Authority") was created as a nonappropriated agency by the State of Oklahoma in 1935 as a conservation and reclamation district. The Authority has the power to control, store, preserve, and distribute the waters of the Grand River and its tributaries for any useful purpose and to develop and generate water power, electric power, and electric energy within the boundaries of the Authority and to buy, sell, resell, interchange, and distribute electric power and energy. The Grand River lies entirely within Oklahoma, but its drainage basin also extends over the states of Arkansas, Kansas, and Missouri. As part of the Authority's licensing agreements, the Authority also has lake area responsibilities. The costs of those activities are funded primarily through electricity sales to rural cooperative, municipal, industrial and off-system customers located in Oklahoma, Kansas, Missouri, and Arkansas. The Authority's financial statements are included in the State of Oklahoma Comprehensive Annual Financial Report as a discrete proprietary component unit.

Joint Participant — Among the Authority's assets is Coal-Fired Complex Unit 2 (which is 62% owned by the Authority and 38% owned by KAMO Power ("KAMO")). Additionally, the Authority and KAMO jointly own an integrated transmission system. These financial statements and notes to financial statements include the transactions for the Authority's ownership of these assets.

Basis of Accounting — The Authority is licensed to operate under the Federal Power Act, which requires the use of the uniform system of accounts, prescribed for public utilities and licensees. The Authority is a cost of service organization and establishes its rates to provide revenues sufficient to pay all expenses necessary for the operation and maintenance of the system, all payments, transfers, and deposits related to outstanding debt, and all other charges or obligations imposed by law or contract.

Basis of Presentation — The Authority's basic financial statements conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 ("Statement 34"), *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and related pronouncements. Statement 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components — invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in Capital Asset — Net of Related Debt — This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted — This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets — This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets — net of related debt."

The financial statements of the Authority are prepared under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Authority has elected to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, unless those pronouncements conflict with GASB pronouncements.

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — Cash and cash equivalents include unrestricted cash in banks, unrestricted money market funds, and unrestricted certificates of deposit with original maturities of three months or less. Balances are presented on a net basis to the extent such balances are subject to the right of offset.

Investments — Investments principally comprise U.S. government securities, U.S. government agencies, Guaranteed Investment Agreements, money market funds, and certificates of deposit. The Authority reports investments, except for certain money market investments and nonparticipating investment contracts, at fair value. Fair value is determined using quoted market prices.

Fuel Stock — Fuel stock is carried at average cost and includes the costs of coal, freight, and labor. These amounts are charged to expense as the fuel is consumed.

Materials and Supplies — Materials and supplies are valued using the average cost and specific identification methods.

Under/Over Recovered Fuel Costs — The Authority's rate structure as approved by the Board of Directors provides for the Authority to make adjustments in revenue collections from municipal, industrial, cooperative and off-system firm customers to recover variations between estimated and actual fuel costs incurred by the Authority. This adjustment, referred to as the Power Cost Adjustment (PCA), is generally calculated twice each year. The Authority's base rate is calculated using 13 mills as an estimated PCA. The cumulative difference between the actual fuel costs and the 13 mill base PCA rate is reflected as either an asset ("under recovery") or liability ("over recovery") in the Authority's accompanying Statements of Net Assets, because such amounts will either be collected from or refunded to customers of the Authority in subsequent periods.

Utility Plant and Depreciation — The cost of utility plant includes direct material, direct labor and indirect costs such as engineering, supervision, transportation, insurance, and interest expense (net of applicable interest income) capitalized during construction. The Authority follows the Federal Energy Regulatory Commission (FERC) electric plant instruction guidelines in defining capital assets. Generally, assets which have a cost of $500 or more at the date of acquisition and have an expected

useful life of one year or more, and are not consumable, are capitalized. The cost of maintenance and repairs to property is expensed. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service. Gain or loss is recognized on retirements and dispositions that management believes to be unusual in nature.

Depreciation is computed on the cost of utility plant by the composite method over the following estimated useful lives and annual depreciation percentages:

Coal-fired plants	34 years	2.90 %
Hydraulic production plants	87 years	1.15
Transmission system	30 years	3.33
Other properties and production plant	5–30 years	20.00–3.33

Long-Lived Assets — The Authority reviews long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Management of the Authority has determined that no impairment adjustments needed to be recognized in 2007 or 2006.

Costs to Be Recovered from Future Revenues — Certain items included in operating costs are recovered by the Authority through rates set by the Board of Directors. The Authority, as a self-regulated utility, is subject to the requirements of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. SFAS No. 71 provides that certain costs that would otherwise be charged to expense can be deferred as regulatory assets, based on the expected recovery from customers in future rates. Historically, recognition of these costs was deferred to the extent that such costs were later included in rates charged by the Authority in future years.

In 2004, the Authority determined that it should defer interest costs related to the 2002B capital appreciation bond issue and expense these costs in 2014, when the related bonds mature. The Authority believes it will fully recover the deferred interest expense, net of any interest income earned on unexpended related construction funds, during 2013 and 2014 as revenues are collected to pay the accrued interest and principal on June 1, 2014. At December 31, 2007 and 2006, the Authority had approximately $3.9 million and $2.8 million, respectively, of costs to be recovered from future revenues.

Management continuously monitors the future recoverability of regulatory assets, and when, in management's judgment, any future recovery becomes impaired, the amount of the regulatory asset will be reduced or written off, as appropriate.

Unamortized Debt Discount or Premium and Expense — Debt discount or premium and expense are amortized using the bonds outstanding method over the periods of the applicable issues.

Unamortized Gains and Losses on Advance Refunding of Long-Term Debt — Recognition of gains and losses realized on advance refunding of long-term debt is deferred and amortized over the life of the related refunding issues using the bonds outstanding method.

Operating and Nonoperating Revenues and Expenses — Operating revenues include the sales of power and other operating revenues such as rents from electric property, consisting primarily of revenues from transmission and ancillary services. Other operating revenues also include sales of water and any sulfur dioxide emissions credits conversions. Operating expenses include costs to operate and maintain the Authority's generation and transmission assets including fuel, purchased power, depreciation and related administrative and general expenses. Nonoperating revenues include interest income, FEMA grant revenue, net increase in the fair value of investments, deferral of costs to be

recovered from future revenues, and income from nonutility operations. Nonoperating expenses include interest expense, amortization of costs to be recovered from future revenues and amortization of bond-related expenses.

Purchased Power — Purchased power includes the cost of electricity purchased for resale and settlements for exchange of electricity.

Income Taxes — The Authority is a governmental agency organized under the laws of the State of Oklahoma and is not subject to federal or state income taxes.

Reclassifications – Certain reclassifications in the cash and cash equivalents and investments and the cash flows from investing and from capital and related financing activities in the 2006 statements of net assets and of cash flows have been made to condense the captions and to comply with the classifications used in 2007.

Recently Issued Accounting Standards — The following accounting standards have been recently issued and have been or will be adopted as applicable by the Authority in future years:

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section — an amendment of NCGA Statement 1*. This statement establishes and modifies requirements related to the supplementary information presented in a statistical section. This statement was effective for the Authority during the 2006 fiscal year and did not have a material impact on the Authority's financial statements.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes standards of accounting and financial reporting for postemployment health care and other benefits if provided separately from a pension plan. The Authority adopted this statement on January 1, 2007. See Note 7 for applicable disclosures of the effect of the adoption on the financial statements.

GASB Statement No. 46, *Net Assets Restricted by Legislation — an amendment of GASB Statement No. 34*. This statement clarifies the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and reporting for those restricted net assets. This statement was effective for the Authority in 2006 and did not have a material impact on the Authority's financial statements.

GASB Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. This statement was effective for the Authority in 2007 and did not have a material impact on the Authority's financial statements.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This statement establishes criteria that governments will use to ascertain whether the proceeds received from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. This statement was effective for the Authority in 2007 and did not have a material impact on the Authority's financial statements

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement will become effective for the Authority in the fiscal year

ending December 31, 2008. Management has not yet determined the impact of this statement on the Authority's financial statements.

GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.* This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this statements amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement will become effective for the Authority in the fiscal year ending December 31, 2008. Management has not yet determined the impact of this statement on the Authority's financial statements.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. This statement will become effective for the Authority in the fiscal year ending December 31, 2008. Management has not yet determined the impact of this statement on the Authority's financial statements.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement will become effective for the Authority in the fiscal year ending December 31, 2008. Management has not yet determined the impact of this statement on the Authority's financial statements.

2. DEPOSITS AND INVESTMENTS

The Authority's General Bond Resolution No. 4800 ("Resolution No. 4800"), which provides for the issuance of revenue bonds, generally defines eligible investment securities as (1) bonds or other obligations which are direct obligations of the United States of America, (2) bonds or other specifically named obligations which are indirectly guaranteed by the United States of America, (3) direct and general obligations of any state which are rated in the two highest major categories of Moody's or Standard & Poor's ("S&P"), (4) certificates of deposit issued by a savings and loan association or a bank and trust company which are collateralized by the securities described in (1) and (2) or which are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), (5) repurchase agreements with banks or government bond dealers which are secured by securities described in (1) and (2), (6) investment agreements with companies or banks whose senior debt obligations are rated no lower than the second highest category of Moody's or S&P, (7) short-term obligations of any state or political subdivision which are rated in the highest short-term category by Moody's or S&P, and (8) any cash swap or similar arrangement of the Bond Fund Trustee, the investments of which are limited to securities described in (1) and (2).

The Authority carries its investments at fair value except for certain nonparticipating investment contracts, such as its Guaranteed Investment Agreements, which are carried at amortized cost. The Guaranteed Investment Agreements are not classified as collateral risk because they are not evidenced by securities that exist in physical or book entry form. The Authority and trustees monitor collateral pledged to secure deposits in financial institutions for compliance with rules and regulations promulgated by the Oklahoma State Treasurer.

Interest-Rate Risk — Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Authority has no formal policy to address exposure to fair value losses resulting from changes in interest rates. However, Resolution No. 4800 requires that investments not mature later than such times as the funds shall be necessary to provide monies when needed for payments to be made from the Bond Service Account, and in the case of the Bond Service Reserve Account, unless otherwise provided in a Supplemental Resolution, not later than fifteen (15) years from the date of investment. Resolution No. 4800 provides that general fund investments shall not mature later than five (5) years from the date of investment. Resolution No. 4800 further provides that Reserve and Contingency investments shall not mature later than ten (10) years from the date of investment. The Authority attempts to hold the investments to maturity which minimizes the exposure to rising interest rates.

As of December 31, 2007 and 2006, the Authority had the following investments (classified as either cash equivalents, investments or restricted investments on the statements of net assets) and corresponding maturities:

	2007			
		Investment Maturities (in Years)		
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**
U.S. gov't/agency securities	$ 181,048,905	$ 84,937,643	$ 72,935,824	$ 23,175,438
Certificates of Deposits	504,697	404,608	100,089	
Money market funds	22,524,685	22,524,685		
Guaranteed investment contracts	68,400,000		68,400,000	
Total investments	$ 272,478,287	$ 107,866,936	$ 141,435,913	$ 23,175,438

	2006			
		Investment Maturities (in Years)		
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**
U.S. gov't/agency securities	$ 162,056,672	$ 75,524,587	$ 41,973,159	$ 44,558,926
Certificates of Deposits	921,197	725,412	195,785	
Money market funds	10,933,532	10,933,532		
Guaranteed investment contracts	68,400,000		68,400,000	
Total investments	$ 242,311,401	$ 87,183,531	$ 110,568,944	$ 44,558,926

As of December 31, 2007 and 2006, the Authority had the following U.S. government/agency investments and maturities:

	2007			
		Investment Maturities (in Years)		
	Fair Value	Less Than 1	1–5	6–10
General operations	$ 36,019,825	$ 16,438,910	$ 18,743,628	$ 837,287
Board designated	25,000,000		25,000,000	
Bond service	40,998,733	40,998,733		
Construction	27,500,000	27,500,000		
Bond service reserve	27,500,000		27,500,000	
Reserve and contingency	24,030,347		1,692,196	22,338,151
Total U.S. gov't/agency securities	$ 181,048,905	$ 84,937,643	$ 72,935,824	$ 23,175,438

	2006			
		Investment Maturities (in Years)		
	Fair Value	Less Than 1	1–5	6–10
General operations	$ 21,494,638	$ 9,192,900	$ 12,301,738	$ -
Board designated	22,500,000		22,500,000	
Bond service	39,043,437	39,043,437		
Construction	27,288,250	27,288,250		
Bond service reserve	27,700,000			27,700,000
Reserve and contingency	24,030,347		7,171,421	16,858,926
Total U.S. gov't/agency securities	$ 162,056,672	$ 75,524,587	$ 41,973,159	$ 44,558,926

Credit Risk — Credit risk is the risk that the insurer or other counterparty to an investment will not fulfill his obligation. Mortgage backed securities (MBS) are not rated because the agencies that issue such securities did not apply to any of the nationally recognized statistical rating organizations (NRSRO) such as Moody's Investors Service ("Moody's") and Standard & Poor's (S&P) for ratings on their MBS. However, the agencies carry AAA ratings from both Moody's and S&P for their debentures, and the MBS which carry their label (e.g. Federal National Mortgage Association — "FNR"; Federal Home Loan Bank — "FHR") are direct obligations of the agencies. With the exception of Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), which are government-sponsored quasi-governmental agencies, the agencies have the backing of the U.S. Government; therefore, the AAA rating is implied. MBS issued by the Government National Mortgage Association, with the label GNR, carry the explicit full faith and credit of the U.S. Government. Fannie Mae and Freddie Mac are currently rated Aaa/AAA/AAA by Moody's, Standard & Poor's, and Fitch credit rating agencies.

As of December 31, 2007 and 2006, the Authority's investments had the following ratings:

	2007					
Investment Rating Moody's/S&P/Fitch	Money Markets	Certificates of Deposits	US Gov't Securities	US Gov't Agencies	Guaranteed Investment Contracts	Total
Aaa/AAA/AAA	$	$	$61,574,802	$119,474,103	$	$181,048,905
Not rated		504,697			68,400,000	68,904,697
Credit risk not applicable	22,524,685					22,524,685
	$22,524,685	$ 504,697	$61,574,802	$119,474,103	$68,400,000	$272,478,287

	2006					
Investment Rating Moody's/S&P/Fitch	Money Markets	Certificates of Deposits	US Gov't Securities	US Gov't Agencies	Guaranteed Investment Contracts	Total
Aaa/AAA/AAA	$ -	$ -	$56,909,010	$105,147,662	$ -	$162,056,672
Not rated		921,197			68,400,000	69,321,197
Credit risk not applicable	10,933,532					10,933,532
	$10,933,532	$ 921,197	$56,909,010	$105,147,662	$68,400,000	$242,311,401

As of December 31, 2007 and 2006, the Authority had the following portfolio of investments with credit exposure by investment type as a percentage of total investments:

	2007	2006
U.S. government securities	23.0 %	24.0 %
U.S. government agencies:		
FFCB	0.5	0.5
FHLB	14.0	7.0
GNMA	0.5	0.5
FHLMC	8.0	17.0
FNMA	21.0	19.0
Money market funds	8.0	4.0
Guaranteed investment contracts	25.0	28.0

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment for collateral securities that are in the possession of an outside party. All money to be held by the Authority under Resolution No. 4800 is required to be deposited in one or more depositories in the name of the Authority. All money deposited under the provisions of Resolution No. 4800 with the Bond Fund Trustee and the Construction Fund Trustee is required to be held in trust and applied only in accordance with the provisions of Resolution No. 4800; money held by the Authority and deposited in any depository is required to be held and secured in the manner provided by Oklahoma law.

Carrying Values — Cash and cash equivalents and current and noncurrent investments at December 31, 2007 and 2006, follows:

	2007		
	Current	**Noncurrent**	**Total**
Cash and cash equivalents:			
Cash Deposits-Net	$ 20,406,821	$ -	$ 20,406,821
Certificates of deposits - original maturity less than 3 months	100,000		100,000
Total cash and cash equivalents	20,506,821		20,506,821
Investments:			
General operating account	61,019,825		61,019,825
Certificates of Deposits - original maturity greater than 3 months	197,630		197,630
Restricted for bond service	42,339,465		42,339,465
Restricted for construction	29,612,591		29,612,591
Restricted for bond service reserve		96,121,388	96,121,388
Restricted for reserve and contingency		24,030,347	24,030,347
Restricted for other special purposes	307,066		307,066
Total investments	133,476,577	120,151,735	253,628,312
Total cash and investments	$153,983,398	$120,151,735	$274,135,133

	2006		
	Current	**Noncurrent**	**Total**
Cash and cash equivalents:			
Cash Deposits-Net	$ 7,177,412	$ -	$ 7,177,412
Certificates of deposits - original maturity less than 3 months	252,972		252,972
Total cash and cash equivalents	7,430,384		7,430,384
Investments:			
General operating account	43,994,638		43,994,638
Certificates of Deposits - original maturity greater than 3 months	591,908		591,908
Restricted for bond service	40,479,164		40,479,164
Restricted for construction	30,882,894		30,882,894
Restricted for bond service reserve		96,121,388	96,121,388
Restricted for reserve and contingency		24,030,347	24,030,347
Restricted for other special purposes	329,290		329,290
Total investments	116,277,894	120,151,735	236,429,629
Total cash and investments	$123,708,278	$120,151,735	$243,860,013

Restricted cash deposits and restricted money market funds are included in investments on the Statement of Net Assets as these amounts are not available for operations.

Cash and investments at December 31, 2007, include the following:

	2007							
	General Operations	Board Designated	Bond Service	Construction	Bond Service Reserve	Reserve and Contingency	Other Special Purposes	Total
Cash deposits — net	$ 1,556,846	$	$	$	$	$	$307,067	$ 1,863,913
Certificates of deposits-maturity < 3 months	100,000							100,000
Money market funds	18,849,974		1,340,732	2,112,591	221,388			22,524,685
U.S. government securities	36,019,825	25,000,000	40,998,733	27,500,000	27,500,000	24,030,347		181,048,905
Certificates of deposits-maturity > 3 months	197,630							197,630
Guaranteed investment agreements					68,400,000			68,400,000
Total cash and investments	$56,724,275	$25,000,000	$42,339,465	$29,612,591	$96,121,388	$24,030,347	$307,067	$274,135,133

Cash and investments at December 31, 2006, include the following:

	2006							
	General Operations	Board Designated	Bond Service	Construction	Bond Service Reserve	Reserve and Contingency	Other Special Purposes	Total
Cash deposits — net	$ 1,295,639	$ -	$ -	$ -	$ -	$ -	$329,290	$ 1,624,929
Certificates of deposits-maturity < 3 months	252,972							252,972
Money market funds	5,881,773		1,435,727	3,594,644	21,388			10,933,532
U.S. government securities	21,494,638	22,500,000	39,043,437	27,288,250	27,700,000	24,030,347		162,056,672
Certificates of deposits-maturity > 3 months	591,908							591,908
Guaranteed investment agreements					68,400,000			68,400,000
Total cash and investments	$29,516,930	$22,500,000	$ 40,479,164	$30,882,894	$96,121,388	$24,030,347	$329,290	$243,860,013

The balances in the investment accounts include Guaranteed Investment Agreements (GIA) entered into by the Authority to receive interest payments at a fixed rate for a designated time period based upon

receipt of an agreed-upon investment amount deposited by the Authority. The restricted balances are the minimum amounts required to be maintained.

Unrealized holding gains and losses on U.S. government securities included in the reserve and contingency account are included in the general operating account as the balance in the reserve and contingency account is established at a stated amount through an allocation of general operating account investment balances.

Additional information concerning these GIAs and additional information relating to cash and investment restrictions follows:

Bond Service — On April 19, 1994, the Authority entered into a debt service forward purchase agreement with Lehman Brothers Special Financing, Inc. ("Lehman"). Under this agreement, the Authority received an advance payment of $22,925,000 in an exchange that granted Lehman the right to receive interest income earned on a GIA earning 7% until it matured on December 1, 2003, and the right to invest remaining sinking fund payments required by the applicable bond indenture through June 1, 2013. The Authority recorded the $22,925,000 advance payment received in 1994 as a deferred credit and is amortizing the amount to income over the life of the agreement. The Authority deposits sinking fund payments pursuant to the bond repayment schedules in effect at the time of the agreement to avoid various prepayment penalties. On December 31, the bond service fund in the accompanying balance sheet reflects the minimum restricted amount sufficient to pay seven months of principal and one month of interest due the following June 1.

Construction — The designated construction accounts include restricted money market funds and investments for two different purposes. (i) The 2002B construction accounts are for the acquisition, construction and equipment of Authority projects specified, primarily generation or metering and Supervisory Control and Data Acquisition (SCADA) projects at the existing Coal-Fired Complex and the three hydro facilities. The projects are intended to restore or improve design capabilities, improve operational reliability, reduce power costs, prevent loss of revenues, or for safety or environmental purposes. Remittances during 2007 were utilized primarily for air preheater baskets at the Coal-Fired Complex and generator upgrades at the Kerr Dam facility. Remittances during 2006 were utilized primarily for boiler upgrade and computerized monitoring equipment at the Coal-Fired Complex and SCADA upgrades at the Energy Control Center. The construction account included a GIA providing for an interest rate of 3.92% with an expiration date of February 1, 2006. Upon the maturity of the GIA, the balance in the construction account was put into a money market fund. This construction account provided remittances to the Authority for permitted purposes through March 2008 when the balance was depleted. (ii) The other construction account includes $27.5 million, which had been legally restricted for capital projects at Fort Gibson Dam from 1989 until 2005. In November 1989, the Authority, the U.S. Army Corps of Engineers and the Southwestern Power Administration entered into a construction agreement for construction of additional generation units at Fort Gibson Dam. At that time, the Authority was required to put into an escrow account approximately $28 million for use in such construction. (These funds came from 1982 Construction Funds that were not required for the completion of Unit 2 at the Coal Fired Complex and related system improvements.) No construction occurred on the Fort Gibson project and in November 2004, the Authority advised the U.S. Army Corps of Engineers of its desire to terminate the Authority's sponsorship. Formal termination of the project was complete during 2005, and pursuant to the Authority's General Bond Resolution No. 4800, the construction trustee was notified to remove the Fort Gibson designation from the construction funds. In March 2008 the Authority adopted a resolution relating to surplus bond proceeds which made the balance of this construction account available for the purpose of completing any authorized capital projects or to pay the principal of any outstanding bonds. Pursuant to the resolution, the Authority has

instructed the trustee to apply the account balance to the bond sinking fund principal requirements from March 2008 through July 2008.

Bond Service Reserve — The balance in the bond service reserve account includes a GIA, which essentially pays an interest rate of 5.78% through June 1, 2010, on $68,400,000 debt service reserve requirements relating to the 1993 bonds. The restricted amount in the accompanying balance sheet reflects the maximum aggregate debt service for all bonds outstanding and consists of the GIA together with other investments.

Reserve and Contingency — The restricted amount in the accompanying balance sheet reflects 25% of the maximum aggregate debt service for all bonds outstanding which is the minimum amount restricted as working capital reserves.

Restricted for Other Special Purposes — The fish and wildlife mitigation fund was established in June 2003 as required by FERC. The Authority funded an initial deposit of $260,000 in 2003, and is required to make $100,000 annual contributions (adjusted for inflation) each year the Pensacola Dam license is in effect. Generally, the purpose of this fund is to support projects to protect and enhance fish and wildlife resources at the direction of various groups external to the Authority. Expenditures of approximately $152,000 and $141,000 were made from the fund in 2007 and 2006, respectively.

In addition to these restricted funds are two special funds (designated by the Authority's Board of Directors in December 2004) which are unrestricted:

The Special Reserve and Contingency Fund I — This designated though unrestricted fund was established in December 2004 to reserve $2.5 million annually for future use, if needed, for extraordinary maintenance, operational, and environmental expense. Total funding of $10 million from available unrestricted funds was board designated as of December 31, 2007.

The Special Reserve and Contingency Fund II — This designated though unrestricted fund was established in December 2004 to reserve $2 million annually for future use, if needed, related to unforeseen risk, including, but not limited to, unscheduled outages, unexpected purchased power expense, and other extraordinary expense not covered by insurance proceeds. An initial amount of $11 million was formally designated in 2004, which combined with the $2 million designated in 2005 and the $2 million designated 2006 from available funds totaled $15 million as of December 31, 2007.

For purposes of computing gross realized gains and gross realized losses, cost is determined by specific identification. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on any investments that had been held for more than the current year may have been recognized as an increase or decrease in the fair value of investments reported in prior years.

Proceeds, gross realized gains and gross realized losses on sales of investment securities for the years ended December 31, 2007 and 2006, were as follows:

	2007	2006
Proceeds	$15,790,990	$25,566,746
Gross realized gains	28,938	217,164
Gross realized losses	(292,694)	(438,432)

Gross realized gains and losses are included in income from nonutility operations in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets.

3. RECEIVABLES

Accounts receivable is comprised at December 31, 2007 and 2006, of the following amounts:

	2007	2006
Customers (less allowance for doubtful accounts of $50,000)	$26,597,666	$30,659,598
Other	9,695,625	11,605,522
Total	$36,293,291	$42,265,120

In general, other accounts receivable include KAMO Power's participation as a co-owner of Authority Unit No. 2, reimbursable work for other entities, the current portion of receivables for aid of construction, and dock billings.

At December 31, 2007 and 2006, the Authority had other noncurrent receivables for aid of construction, scheduled for collection through 2014, of $373,584 and $1,493,018, respectively, and noncurrent receivables for closure and post-closure costs related to the ash landfill at the Coal Fired Complex of $396,997 and $362,404 respectively.

4. UTILITY PLANT

A summary of changes in utility plant for the years ended December 31, 2007 and 2006, follows:

	2007			
	Balance December 31, 2006	Additions	Retirements	Balance December 31, 2007
Capital assets — non-depreciable:				
Land	$ 26,880,906	$ 415,161	$ (19,230)	$ 27,276,837
Construction work in progress	20,526,281	24,004,990		44,531,271
Total capital assets — nondepreciable	47,407,187	24,420,151	(19,230)	71,808,108
Capital assets — depreciable:				
Coal-fired plant Unit No. 1 (reduced by cost of common facilities applicable to joint ownership of Unit No. 2 (see Note 7))	310,590,257	225,650	(566,611)	310,249,296
Coal-fired plant Unit No. 2 (see Note 7)	322,116,192	(52,768)	(4,574,417)	317,489,007
Hydraulic production plants	82,353,551	486,916	(263,565)	82,576,902
Transmission system	168,107,942	11,800,525	(1,795,841)	178,112,626
Other properties and production plant	50,535,662	1,987,738	(5,927,260)	46,596,140
	933,703,604	14,448,061	(13,127,694)	935,023,971
Less accumulated depreciation:				
Coal-fired plant Unit No. 1	(216,941,324)	(8,970,078)	668,201	(225,243,201)
Coal-fired plant Unit No. 2	(188,051,711)	(9,104,012)	4,984,817	(192,170,906)
Hydraulic production plants	(30,910,414)	(1,007,420)	270,568	(31,647,266)
Transmission system	(105,005,487)	(5,244,375)	2,504,264	(107,745,598)
Other properties and production plant	(40,324,999)	(1,944,279)	5,871,836	(36,397,442)
	(581,233,935)	(26,270,164)	14,299,686	(593,204,413)
Total capital assets — depreciable	352,469,669	(11,822,103)	1,171,992	341,819,558
Net utility plant	$ 399,876,856	$ 12,598,048	$ 1,152,762	$ 413,627,666

	2006			
	Balance December 31, 2005	Additions	Retirements	Balance December 31, 2006
Capital assets — non-depreciable:				
Land	$ 26,881,621	$	$ (715)	$ 26,880,906
Construction work in progress	4,948,252	15,578,029		20,526,281
Total capital assets — nondepreciable	31,829,873	15,578,029	(715)	47,407,187
Capital assets — depreciable:				
Coal-fired plant Unit No. 1 (reduced by cost of common facilities applicable to joint ownership of Unit No. 2 (see Note 7))	310,836,571	84,388	(330,702)	310,590,257
Coal-fired plant Unit No. 2 (see Note 7)	316,540,428	5,578,260	(2,496)	322,116,192
Hydraulic production plants	82,975,220	464,444	(1,086,113)	82,353,551
Transmission system	167,383,458	1,547,338	(822,854)	168,107,942
Other properties and production plant	47,751,190	3,261,575	(477,103)	50,535,662
	925,486,867	10,936,005	(2,719,268)	933,703,604
Less accumulated depreciation:				
Coal-fired plant Unit No. 1	(208,184,417)	(9,025,523)	268,616	(216,941,324)
Coal-fired plant Unit No. 2	(178,855,952)	(9,197,055)	1,296	(188,051,711)
Hydraulic production plants	(31,022,345)	(965,711)	1,077,642	(30,910,414)
Transmission system	(100,907,239)	(4,957,187)	858,939	(105,005,487)
Other properties and production plant	(38,941,521)	(1,760,227)	376,749	(40,324,999)
	(557,911,474)	(25,905,703)	2,583,242	(581,233,935)
Total capital assets — depreciable	367,575,393	(14,969,698)	(136,026)	352,469,669
Net utility plant	$ 399,405,266	$ 608,331	$ (136,741)	$ 399,876,856

The change in construction work in progress during 2007 and 2006, is presented on a net basis to avoid a duplication of additions and retirements in the above tables. The increase in accumulated depreciation exceeds the decrease in capital assets for certain classes due to removal costs.

The Authority had contractual commitments at December 31, 2007 of approximately $92,430,000 for equipment and construction contracts. Major projects include the Markham Ferry Hydroelectric Plant Upgrade for approximately $71,475,000, the Renovation of the Energy Control Center for approximately $8,840,000, the purchase of Microwave Radios and Supporting Equipment for approximately $3,030,000, the installation of Access Control and Surveillance System at all plant and office locations for approximately $3,110,000 and the construction of Transmission Lines for approximately $3,235,000.

5. COST TO BE RECOVERED FROM FUTURE REVENUES

At December 31, 2007, the deferred regulatory asset consists of interest deferrals on the 2002B capital appreciation bonds maturing in 2014. A rollforward of costs to be recovered from future revenues follows:

	2007	2006
Beginning balance	$2,842,807	$1,922,740
Deferral of 2002B interest	1,066,691	920,067
Ending balance	$3,909,498	$2,842,807

6. BONDS PAYABLE

A summary of changes in bonds payable for the years ended December 31, 2007 and 2006, follows:

	2007		
	December 31, 2006	Retirements	December 31, 2007
Revenue Bonds, Refunding Series 1993 — 5-1/2% to 5-7/8% maturing through 2010	$282,930,000	$(65,045,000)	$217,885,000
Revenue Bonds, Refunding Series 1995:			
6.25% maturing in 2011	81,690,000		81,690,000
5.5% maturing in 2013	91,715,000		91,715,000
Total Series 1995	173,405,000		173,405,000
Revenue Bonds, 2002 A & B Series:			
5% Refunding Series 2002A — maturing in 2012	86,160,000		86,160,000
5.1% Capital Appreciation Bonds — maturing in 2014	18,636,340		18,636,340
Total Series 2002 A & B	104,796,340		104,796,340
Total bonds payable	561,131,340	(65,045,000)	496,086,340
Less current portion	(65,045,000)		(68,780,000)
Long-term portion	496,086,340		427,306,340
Add (deduct):			
Unamortized debt premium	4,267,619	(784,751)	3,482,868
Unamortized debt discount	(4,883,875)	1,180,647	(3,703,228)
Unamortized loss on advance refunding	(16,062,267)	4,749,480	(11,312,787)
Long-term bonds payable	$479,407,817		$415,773,193

	2006		
	December 31, 2005	Retirements	December 31, 2006
Revenue Bonds, Refunding Series 1993 — 5-1/2% to 5-7/8% maturing through 2010	$344,440,000	$(61,510,000)	$282,930,000
Revenue Bonds, Refunding Series 1995:			
6.25% maturing in 2011	81,690,000		81,690,000
5.5% maturing in 2013	91,715,000		91,715,000
Total Series 1993	173,405,000	-	173,405,000
Revenue Bonds, 2002 A & B Series:			
5% Refunding Series 2002A — maturing in 2012	86,160,000		86,160,000
5.1% Capital Appreciation Bonds — maturing in 2014	18,636,340		18,636,340
2002 A & B	104,796,340	-	104,796,340
Total bonds payable	622,641,340	$(61,510,000)	561,131,340
Less current portion	(61,510,000)		(65,045,000)
Long-term portion	561,131,340		496,086,340
Add (deduct):			
Unamortized debt premium	5,052,370	(784,751)	4,267,619
Unamortized debt discount	(6,192,992)	1,309,117	(4,883,875)
Unamortized loss on advance refunding	(21,618,561)	5,556,294	(16,062,267)
Long-term bonds payable	$538,372,157		$479,407,817

Oklahoma state statutes have authorized the Authority to issue revenue bonds from time to time with the aggregate outstanding indebtedness not to exceed $1,410,000,000.

On May 30, 2002, the Authority issued $104,966,340 Revenue Bonds for the acquisition, construction and equipment purchases related to approved Authority Projects and to refund the remaining outstanding 1987 revenue bonds. This consisted of $86,330,000 Revenue Bonds, Refunding Series 2002A (the "2002A Bonds") to refund $86,160,000 remaining of the 1987 Bonds. The 2002A refunding bonds were issued at a $4.5 million premium. The Authority recorded an initial accounting loss of approximately $371,000 in connection with this advance refunding, which was recorded as a deferred contra-liability and is being amortized to expense over the life of the new bonds. The difference between the present values of the old and new debt service payments was $2.0 million. The Authority realized all of the aggregate bond savings by decreasing the June 1, 2002, debt service payment. Additionally, the Authority also issued $18,636,340 Capital Appreciation Bonds, Revenue Bonds 2002B (the "2002B Bonds") for the acquisition, construction and equipment of Authority projects. As previously noted in

Note 5, the Authority will defer interest on the 2002B capital appreciation bonds until the bonds mature on June 1, 2014, at which time the deferred regulatory asset will be expensed.

In 1995, the Authority issued $173,405,000 Revenue Bonds, Refunding Series 1995 (the "1995 Bonds") to advance refund $171,755,000 of the outstanding 1987 Bonds. The Authority recorded an initial accounting loss of approximately $17.0 million in connection with this advance refunding, which was recorded as a deferred contra-liability and is being amortized to expense over the life of the new bonds which matches the maturity of the old bonds. The difference between the present values of the old and new debt service payments was $3.8 million. The Authority will realize $5.7 million in decreased aggregate debt service payments.

In 1993, the Authority issued $764,585,000 Revenue Bonds, Refunding Series 1993 (the "1993 Bonds") to advance refund $681,190,000 of the outstanding 1987 Bonds. The Authority recorded an initial accounting loss of approximately $113.7 million in connection with this advance refunding, which was recorded as a deferred contra-liability and is being amortized to expense over the life of the new bonds which matches the maturity of the old bonds. The difference between the present values of the old and new debt service payments is $18.2 million, including $6.1 million from an investment contract premium on the bond reserve funds, and the Authority will realize $20.1 million in decreased aggregate debt service payments.

Monies from the 2002A, 1995 and 1993 refunding bonds were placed in escrow for the payment of principal and interest on all the defeased bonds and were invested in obligations of the United States of America, which were deposited in irrevocable trusts with recourse against the trustee if funds are not available to pay principal, interest and any redemption premium on a timely basis. Since the revenue bonds that are defeased are no longer direct liabilities of the Authority, they are not reflected on the accompanying Statements of Net Assets.

Defeased bonds of $37,340,000 and $50,850,000 were outstanding at December 31, 2007 and 2006, respectively. At December 31, 2007, the defeased term bonds were a portion of the 1983B and 1982 Series, and the 1976 and 1969 Series.

The scheduled maturities of bonds payable at December 31, 2007, are as follows and reflect the scheduled payments to be remitted by the trustee to the bondholders:

Years Ending December 31	Annual Principal	Semiannual Interest	Calendar Year Total
2008	$ 68,780,000	$13,306,788	$ -
		11,329,363	93,416,151
2009	72,590,000	11,329,363	
		9,333,138	93,252,501
2010	76,515,000	9,333,138	
		7,228,194	93,076,332
2011	81,690,000	7,228,194	
		4,676,158	93,594,352
2012	86,765,000	4,676,158	
		2,505,525	93,946,683
2013–2014	109,746,340	17,979,190	127,725,530
	$496,086,340	$98,925,209	$595,011,549

The Authority makes equal monthly sinking fund installments to the trustee from June through May of each year to meet the June 1 annual principal payment and June 1 and December 1 semiannual interest payments.

The following is a schedule of the minimum debt service sinking fund requirements for each year ending December 31:

Years Ending December 31	
2008	$ 95,309,079
2009	95,223,963
2010	95,740,091
2011	96,119,018
2012	96,119,498
2013–2014	74,160,437
	$552,672,086

To secure the bonds, the Authority has pledged revenues of the Authority. Resolution No. 4800 and supplemental bond resolutions specify multiple covenants made by the Authority to the Bond Fund Trustee and bondholders. Among the more significant requirements, the Authority has covenanted to charge adequate rates, operate and maintain the facilities and make any necessary repairs, renewals, replacements and improvements. System properties are not to be encumbered or sold or disposed of and additional parity bonds are not to be issued unless certain conditions are met. As of December 31, 2007, the Authority is in compliance with bond covenants.

In general, federal tax laws require the Authority to rebate to the U.S. Treasury any profit from investments that yield a higher rate than the tax-exempt revenue bond proceeds. The Authority has accrued a liability for arbitrage rebate of approximately $127,000 and $241,000 at December 31, 2007 and 2006, respectively, which is included in accounts payable in the accompanying Statements of Net Assets. Increases in this obligation are recorded against interest income.

7. RETIREMENT PLANS, POSTRETIREMENT, AND OTHER EMPLOYEE BENEFITS

The Authority participated in five retirement plans during 2007 and 2006. The plans currently available to Authority personnel include three defined benefit plans and two defined contribution plans. A summary of significant data for each of the retirement plans and discussion of postemployment and other employee benefits follows:

Oklahoma Public Employees Retirement Plan

Plan Description — The Authority contributes to the Oklahoma Public Employees Retirement Plan (the "OPERS Plan"), a cost-sharing multiple-employer public employee defined benefit retirement plan administered by the Oklahoma Public Employees Retirement System (OPERS), a component unit of the State of Oklahoma (the "State"). The OPERS Plan provides retirement, disability and death benefits to its members and beneficiaries, primarily state, county and local agency employees. The benefits provided are established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, assigns the authority for management and operation of the OPERS Plan to the Board of Trustees of the OPERS.

OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to OPERS, PO Box 53007, Oklahoma City, OK 73152-3007, or by calling 1-800-733-9008.

Funding Policy — OPERS members and the Authority are required to contribute to the OPERS Plan at a rate set by statute. Contribution rates are established and may be amended by the legislature of the State. Each member participates based on gross salary earned (excluding overtime). As state employees, GRDA employees contribute 3.0% of the first $25,000 of base salary and 3.5% of base salary above $25,000. The Authority contributed 10% of total base salary through June 30, 2005, 11.5 % through June 30, 2006, and is currently contributing 13.5% until June 30, 2008.

Effective January 1, 2004, members participating in OPERS can make an irrevocable election to increase their retirement factor by 25%, from 2.0 to 2.5 for each year of participating service earned after the effective date by contributing an additional 2.91% of the first $25,000 of base salary and 3.41% on base salary above $25,000. This is referred to as the "step-up" program. The election can be made at enrollment or at any time while an active participating member, but once an irrevocable, "step-up" election is made it is binding on all future OPERS participation even if the member changes jobs or has a break in service. The Authority makes no additional contributions if an election to "step-up" is made, and the Authority's rate remains at 12.5%.

The Authority made the required contributions of approximately $3,823,000, $3,322,000, and $2,727,000 for the years ended December 31 2007, 2006, and 2005, respectively.

Oklahoma Law Enforcement Retirement Plan

Plan Description — Legislation passed during 2003 mandates that any lake patrolmen and dispatchers hired after August 29, 2003, shall participate as members of the Oklahoma Law Enforcement Retirement Plan (the "OLERS Plan"), a single-employer public employee defined benefit retirement plan administered by the Oklahoma Law Enforcement Retirement System (OLERS), a component unit of the State. The OLERS Plan provides retirement, disability and death benefits to its members and beneficiaries, primarily state employees providing law enforcement. The benefits provided are established and may be amended by the legislature of the State. Three GRDA patrolmen elected to transfer from the OPERS Plan to the OLERS plan under Title 47 Section 2-315 which provided that Authority lake patrolmen and dispatchers as of June 30, 2003, could make an irrevocable written election by January 1, 2004, to either pay the difference between the amount transferred between the plans or receive eligible prorated service credit as defined in statute. Title 47 of the Oklahoma Statutes, Sections 2-300 through 2-303, as amended, assigns the authority for management and operation of the OLERS Plan to the OLERS Board.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for OLERS. That annual report may be obtained by writing to OLERS, 4545 N. Lincoln Blvd, Suite 257, Oklahoma City, OK 73105-3414 or by calling 1-877-213-0856.

Funding Policy — System members and the Authority are required to contribute to the OLERS Plan at a rate set by statute. These are established and may be amended by the legislature of the State. Each member participates based on gross salary earned (excluding overtime). GRDA patrolmen and dispatchers participating in the OLERS Plan contribute 8.0%, and the Authority contributes 10% of total base salary.

Participation in the OLERS plan was effective January 1, 2004. The Authority made the required contribution of $21,210, $22,241, and $18,567 for the years ended December 31, 2007, 2006, and 2005, respectively.

Oklahoma State Employees Deferred Compensation Plan

Plan Description — Employees of the Authority may also participate in the Oklahoma State Employees Deferred Compensation Plan (the "State Plan"), a voluntary deferred compensation plan administered by OPERS. The State Plan is a defined contribution plan available to all Authority employees, which permits participants to defer receipt of a portion of their salary until future years under Section 457 of the Internal Revenue Code. The minimum amount allowable to be deferred under the State Plan is $25 per month. Under state law, each employee is eligible to receive a $25 monthly matching contribution from the Authority to be deposited in a 401(a) retirement account. Employee contributions to the Plan totaled approximately $455,000, $419,000, and $383,000 for the years ended December 31, 2007, 2006, and 2005, respectively. The Authority paid matching contributions and administrative fees of approximately $137,000, $134,000, and $130,000, for the years ended December 31, 2007, 2006, and 2005, respectively.

GRDA Employees Retirement Plan

Plan Description — Employees of the Authority are also eligible to participate in the GRDA Employees Retirement Plan (the "GRDA Plan"), a voluntary deferred compensation plan administered by Nationwide Retirement Solutions and provided for under Section 457 of the Internal Revenue Code. The GRDA Plan is a defined contribution plan available to all Authority employees, which permits participants to defer receipt of a portion of their salary until future years. The Authority does not make any matching contributions to this plan. Employee contributions to the GRDA Plan totaled approximately $615,000, $570,000, and $543,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

Contributions by individual employees to either or both the State Plan and GRDA Plan in aggregate may not exceed 25% of adjusted gross salary or $15,500 for the year 2007, whichever is less, except under a "catch-up" provision that allows certain eligible employees to contribute up to a certain amount annually, which was $31,000 for the year 2007, during the three years preceding normal retirement age. An additional provision allows for employees over the age of 50 to defer an additional $5,000 during the plan year. Employees are not allowed to participate in both the "over 50" provision and the "catch-up" provision during the same plan year. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

GRDA Postemployment Healthcare Plan

Plan Description - GRDA Postemployment Healthcare Plan is a single-employer defined benefit healthcare plan administered by the Authority. GRDA Postemployment Healthcare Plan provides medical and dental insurance benefits to eligible retirees. Beginning in 2003, revisions to Title 82, Section 864.1 of the Oklahoma Statutes authorized the Authority to pay up to $60 per month of eligible employee-only health insurance premiums for each Authority retiree. Legislation passed in 2005 removed the $60 limitation. At the December 2005 board meeting, the Authority's directors authorized the Authority to increase the amount to a defined benefit allowance of $105 per month for eligible retiree premiums, effective January 1, 2006. At the November 2007 board meeting, the Authority's directors authorized the authority to increase the amount to $200 per month for eligible retiree premiums, effective January 1, 2008. This increase will be reflected in the Authority's 2008 basic financial statements.

Funding Policy - The contribution requirements of plan members and the Authority are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2007, the Authority contributed $179,313 to the plan which consisted entirely of current premiums and included no additional contribution to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation. - The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority net OPEB obligation to GRDA Postemployment Healthcare Plan:

Annual required contribution	$ 329,850
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	329,850
Contributions made	(179,313)
Increase in net OPEB obligation	150,537
Net OPEB obligation — beginning of year	-
Net OPEB obligation — end of year	$ 150,537

The authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2007 and the two preceding years were as follows:

Year-end	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net Net OPEB Obligation
12/31/2005	$ 98,817	100.00%	$ -
12/31/2006	175,030	100.00%	-
12/31/2007	329,850	54.36%	150,537

Note: GASB 45 was implemented for the year ended December 31, 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumption - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2007 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 5.0% discount rate, which is based on the employer's own rate of return on investments. The unfunded actuarial accrued liability is being amortized over the maximum permissible amortization period of thirty years as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2007 was twenty-nine years.

Other Employee Benefits — The Authority has accrued a liability for annual and compensated leave, and related payroll taxes, of approximately $3,666,000 and $3,648,000 at December 31, 2007 and 2006, respectively, which is included in accounts payable and accrued liabilities in the accompanying financial statements.

8. OTHER RELATED-PARTY TRANSACTIONS

The primary organizations considered related parties are those municipal, industrial, electric cooperative and other governmental organizations or lake area organizations that have representatives serving on the Authority's Board of Directors. The primary transactions in the ordinary course of business with these related parties, except for various transactions with KAMO (see Note 1) which are described elsewhere in the notes to financial statements, include sales of electrical power and transmission and memberships in related trade associations, or organizations or tourism and economic development activities associated with the management of the lakes, including commercial and private dock permit fees.

9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Authority makes and receives commitments for purchases of coal and other materials and supplies inventory. In addition, in the normal course of business the Authority enters into agreements which commit the Authority to provide varying amounts of electric power to its customers. Management of the Authority does not believe the honoring of these commitments will have any material adverse effect on the Authority.

The Authority had contractual commitments at December 31, 2007, for long-term coal purchases through 2012 and freight purchases through 2016 under contracts with estimated minimum obligations. The minimum obligations below are based on the Authority's contract rates and represents management's best estimate of future expenditures under long-term arrangements.

Years Ending December 31	Amount
2008	$ 96,655,500
2009	101,080,000
2010	107,600,000
2011	114,280,000
2012	88,560,000
2013	90,040,000
2014	91,600,000
2015	93,160,000
2016	94,760,000
Total	$877,735,500

The Authority had contractual commitments as of December 31, 2007, for railcar leases with minimum obligations of approximately $9,850,000 through the year 2012.

At December 31, 2007, the Authority had settled the remaining six claims related to alleged flooding of property upstream from Grand Lake in the early 1990s. The Plaintiffs had sought damages in excess of $10,000,000 as a result of flooding which were allegedly caused by the operation of the Authority's Pensacola Dam or for which the operation of the Pensacola Dam contributed to the extent and/or duration of the flooding.

The issue of liability in these claims was determined by the Appellate Courts. The only remaining issue for each claim was the amount of damages to which the claimants are entitled. An additional 88 claims were resolved in 2005 and, in January 2006, the Authority paid approximately $680,000 in full and final settlement of the 88 claims. In January 2008, the Authority paid approximately $707,500 to resolve the remaining claims.

Prior to March 2005, it was expected that the Authority's primary liability insurer would cover all damages incurred by the Authority from these flooding cases. In March 2005, however, the insurance company filed an action seeking to limit its obligations under the insurance policies issued to the Authority. This action was filed by the insurance company in response to the Authority demand for coverage and indemnity with regard to the claims discussed in the preceding paragraph. The Authority's position is that the insurance company remains responsible for the flooding claims.

The Authority is also the defendant in another case which involves approximately 50 landowners. The individuals are claiming a constitutional taking due to flooding. This case has been held in abeyance pending the outcome of the previous flooding case described above. Until further information related to these claims is obtained, the Authority is unable to assess the probability or amount of liability, if any, in these cases.

The Authority is a self-supporting agency of the State of Oklahoma that receives no state appropriations and is exempt from many laws, which apply generally to all state agencies. Historically, due to these exemptions, the Authority also considered itself exempt from other state laws. In 2004, management initiated a legal review of the Authority's compliance with applicable federal and state laws, regulations

and contracts. As a result of the legal review, management has determined that compliance is necessary with certain provisions of state law and in 2005, began implementing policies and administrative rules to bring the Authority into compliance. In 2006, the Authority promulgated administrative rules pursuant to the Oklahoma Administrative Procedures Act. These rules have the force and effect of law. The Oklahoma Administrative Code now contains several chapters of administrative rules for the Authority. The administrative rules cover the following topics: Operations and Procedures; Surplus Property Disposal; Purchasing Policy Requirements; Method for Obtaining a License to Encroach from the Authority; Aircraft Travel Log Rules; and Lake Rules.

Management does not believe any remaining noncompliance with laws, regulations and contracts will have a material effect on the Authority's financial statements or other material adverse effects on the Authority.

The Authority is also engaged in various other litigation matters incidental to the conduct of its business, the ultimate outcome of which cannot be predicted by management of the Authority and the Authority's legal counsel.

10. FLYASH LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Authority maintains a flyash landfill in Chouteau, Oklahoma. The Authority accounts for this flyash landfill in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*.

State Regulations will require the Authority to place a final cover on the flyash site when it discontinues its depositing of flyash and to perform certain maintenance and monitoring functions at the site for eight years after closure. Although closure costs occur as the landfill is used, and in a manner consistent with the closure plan, postclosure costs will be paid near or after the date of discontinuance of use of the landfill. Statement No. 18 requires proprietary funds to report a portion of these costs as an operating expense in each period based on capacity and utilization. The amount recorded as a liability for the closure and postclosure costs at December 31, 2007, and 2006, was $1,116,127 and $1,019,928, respectively, which represents 77% and 78% of the total estimated closure and postclosure costs. The Authority will recognize the remaining estimated cost of closure and postclosure care of approximately $334,000 as the remaining estimated capacity is filled. These estimated closure amounts are based on what it would cost to perform all closure and post closure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulation.

11. RISK MANAGEMENT

The Authority is exposed to a variety of losses and has purchased commercial insurance to cover these risks, subject to various coverage limits and exclusions. Resolution No. 4800 requires that, in each case where it is obtainable and at a reasonable rate and terms, facilities be insured, liability insurance be maintained, and officers and employees be bonded.

In general, property coverage, such as aircraft, auto, equipment, watercraft, boiler and machinery, flooding, earthquake, hazardous material cleanup, expediting, etc. is purchased through the State of Oklahoma. Workers' compensation insurance is also purchased from Comp Source Oklahoma, the State's insurance fund. The Authority has also insured for director and officer liability through the State of Oklahoma. Additional coverage is purchased from private carriers for general, excess public, and umbrella liability, bonding, and contractors' equipment. The Authority added endorsements for certified "acts of terrorism" as defined in the Federal Terrorism Risk Insurance Act of 2002 to the general liability and excess public liability policies. Settled claims resulting from the identified risks, except for

the flooding litigation discussed in Note 9, have not exceeded commercial insurance coverage in any of the past three years.

The Authority enters into contracts to buy, sell and exchange electric power with other energy companies. At December 31, 2007 and 2006, the Authority's liability related to these contracts approximated $2,104,148 and $2,046,640, respectively, and is included in accounts payable and accrued expenses in the accompanying Statements of Net Assets. These contracts are derivative instruments, which are accounted for as a normal purchase in accordance with SFAS No. 133.

In addition, the Authority is subject to generation supply and market price risks, which are continually evaluated as to level of risk and how to best mitigate exposure to loss. Concentration of revenues from a single external customer also increases credit and market concentration risks. In 2007 and 2006, the Authority had two customers that each accounted for more than 10% of the Authority's operating revenues for the year. Sales to the City of Coffeyville totaled $30.9 million and $29.5 million for the years 2007 and 2006, respectively. Sales to Northeast Electric Cooperative totaled $29.9 million and $30.0 million for the year 2007 and 2006, respectively.

12. FAIR VALUE INFORMATION

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. The estimated fair value amounts have been determined by the Authority, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Authority could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable and Accrued Liabilities — The carrying amounts of these items are a reasonable estimate of their fair value.

Investments — Investments are carried at fair value in the accompanying Statements of Net Assets based on quoted market prices for the investments, except for guaranteed investment agreements which are carried at cost as they are non-participating.

Long-Term Debt — The fair value of long-term debt is approximately $533 million and $598 million at December 31, 2007 and 2006, respectively, based on interest rates that are currently available to the Authority for issuance of debt with similar terms and remaining maturities. All bonds currently held by the Authority are not redeemable prior to their stated maturities.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2007 and 2006. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

13. FEMA GRANT REVENUE

The Authority received financial assistance from the Federal Government in the form of grants from the U.S. Department of Homeland Security for ice storm damage incurred in January and December 2007. Those grants were passed through to the Authority from the Oklahoma Department of Emergency Management and are generally conditioned upon compliance with terms and conditions of the applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by federal agencies. Any disallowance as a result of these audits could become a liability of the Authority.

14. SUBSEQUENT EVENT

In January 2008, GRDA signed agreements with Oklahoma Gas and Electric Company (OG&E) and the Oklahoma Municipal Power Authority (OMPA) to purchase the natural-gas fired Redbud Power Plant near Luther, Oklahoma. GRDA will be a 36 percent interest owner in the 1,200-megawatt facility, which translates into approximately 400 MW of additional generation for the Authority. OG&E will own 51% and OMPA will own the remaining 13%. Total sale price for the plant is $852 million. The transaction is currently expected to close by the end of 2008 pending regulatory approval for OG&E's share of the purchase.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

ACTUARIAL INFORMATION — Other Post-Employment Benefits Plan — Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Values of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2007	$ -	$4,280,606	$4,280,606	0.00%	$33,000,000	12.97%

Funded Status and Funding Progress — As of January 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $4,280,606, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $4,280,606. The covered payroll (annual payroll of active employees covered by the plan) was $33,000,000, and the ratio of the UAAL to the covered payroll was 12.97%. See Note 7 to Financial Statements, *Retirement Plans, Postretirement, and OtherEmployee Benefits,* for additional information about GRDA's Postemployment Healthcare Plan.

APPENDIX E

FORM OF PROPOSED OPINION OF BOND COUNSEL

[Closing Date]

Grand River Dam Authority
Vinita, Oklahoma

Ladies and Gentlemen:

We have acted as Bond Counsel to the Grand River Dam Authority (the "Authority"), a governmental agency and body corporate and politic of the State of Oklahoma (the "State") created by Title 82, Section 861 *et seq.*, Oklahoma Statutes 2001, as amended to the date hereof (the "Act"), the same being the Grand River Dam Authority Act, in connection with the issuance by the Authority of $_____ aggregate principal amount of Revenue Bonds, Series 2008A (the "2008A Bonds") and $_____ aggregate principal amount of Revenue Bonds, Series 2008B (Federally Taxable) (the "2008B Bonds" and, collectively with the 2008A Bonds, the "Bonds").

The Bonds are issued under and pursuant to the Act, and under and pursuant to the General Bond Resolution, Resolution No. 4800, adopted by the Board of Directors of the Authority on March 6, 1987, as amended (the "General Bond Resolution"), as supplemented by the Seventh Supplemental Resolution adopted by the Board of Directors of the Authority on August 8, 2008, including as a part thereof the Certificate of Determination dated the date hereof (the "Supplemental Resolution"), authorizing the Bonds (the General Bond Resolution as supplemented by the Supplemental Resolution being herein called the "Resolution"). The Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Resolution. The Authority reserves the right to issue additional bonds on the terms and conditions and for the purposes as provided in the Resolution. Under the Resolution, any such bonds and certain other obligations may rank equally as to security and payment with the Bonds.

As Bond Counsel to the Authority, at your request we have examined into the validity of the Bonds and certain other matters as expressly set forth below. We have examined the Constitution and statutes of the State, including the Act, certified copies of proceedings of the Board of Directors of the Authority authorizing the issuance of the Bonds, including the Resolution, and a specimen Bond of each series, and have made such other examination of applicable law and fact as we have considered necessary or appropriate for the purposes of this letter.

Based on the foregoing, and subject to the assumptions and limitations referred to below, we are of the opinion that:

(1) The Authority has been duly created and is validly existing under the Act.

(2) The Authority has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Revenues and all rights to receive the same and certain moneys, securities, funds and accounts held or set aside under the Resolution, subject to the application thereof for the purposes and on the conditions permitted by the Resolution.

(3) The Authority is duly authorized and entitled to issue the Bonds, and the Bonds have been duly and validly authorized, issued and authenticated by the Authority in accordance with law, including the Act, and in accordance with the Resolution, constitute valid and binding obligations of the Authority as provided in the Resolution and enforceable in accordance with their terms and the terms of the Resolution, and are entitled to the benefits of the Act and of the Resolution. The Bonds are payable solely from the Revenues (as defined in the Resolution) and other moneys, securities, funds and accounts held or set aside under the Resolution as and to the extent provided in the Resolution.

(4) Under existing statutes and court decisions, (i) interest on the 2008A Bonds is excludable from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) such interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed with respect to such corporations. In rendering the opinions in this paragraph (4), we have relied on certain representations, certifications of fact, and statements of reasonable expectations made in connection with the issuance of the 2008A Bonds by the Authority, and have assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2008A Bonds from gross income under Section 103 of the Code. Under the Code, noncompliance with such requirements may cause the interest on the 2008A Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the 2008A Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

(5) For any 2008A Bonds having original discount, original issue discount that has accrued and is properly allocable to the owners of such 2008A Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2008A Bonds.

(6) Under the Act, the Bonds and the interest thereon are exempt from taxation, except inheritance taxes, by the State or by any municipal corporation, county or other political subdivision or taxing district of the State.

The opinions expressed in paragraphs (1) through (3) above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law. Furthermore, no opinion is expressed as to the availability of any particular remedy.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs (4), (5) and (6) above, or (ii) the effect of any action taken or not taken in reliance upon an opinion of counsel, other than ourselves, on the exclusion from gross income for Federal income tax purposes of interest on the 2008A Bonds, or under state or local tax laws, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement (or any update or amendment thereof or supplement thereto) of the Authority relating to the Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Bonds.

This letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material or matters of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason.

Very truly yours,

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE AGREEMENT

The following is a general summary of certain provisions of a Continuing Disclosure Agreement (the "*Agreement*") between Grand River Dam Authority (the "*Authority*") and Bank of Oklahoma, National Association, as Bond Fund Trustee (the "*Bond Fund Trustee*"), expected to be entered into as of the date of delivery of the 2008 Bonds. This summary is not considered to be a full statement of the terms of the Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof. A copy of the Agreement may be obtained from the Authority, on request, after the delivery of the 2008 Bonds. Capitalized terms used in this summary which are not otherwise defined under "Definitions" below shall have the respective meanings specified in the General Bond Resolution adopted by the Board of Directors of the Authority on March 6, 1987, as supplemented by the Seventh Supplemental Resolution adopted by the Board of Directors of the Authority on August 8, 2008 (the "*Resolution*").

The Undertaking

Annual Financial Information. (a) The Authority shall provide Annual Financial Information with respect to each fiscal year of the Authority, commencing with fiscal year 2008, by no later than six (6) months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The Authority shall provide, in a timely manner, notice of any failure of the Authority to provide the Annual Financial Information by the date specified in paragraph (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by paragraph (a) under "Annual Financial Information" above, the Authority shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Notices of Material Events. (a) If a material Event occurs, the Authority shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR, (ii) the SID and (iii) the Bond Fund Trustee.

(b) The Bond Fund Trustee shall promptly advise the Authority whenever, in the course of performing its duties as Bond Fund Trustee under the Resolution, the Bond Fund Trustee has actual notice of an occurrence which, if material, would require the Authority to provide a Material Event Notice under the Agreement; provided, however, that the failure of the Bond Fund Trustee so to advise the Authority shall not constitute a breach by the Bond Fund Trustee of any of its duties and responsibilities under the Agreement or the Resolution.

Termination, Amendment and Enforcement

Termination. The Authority's and the Bond Fund Trustee's obligations under the Agreement shall terminate upon a legal defeasance pursuant to Section 12.01 of the Resolution, prior redemption or payment in full of all of the 2008 Bonds.

Amendment. (a) The Agreement may be amended, by written agreement of the parties, without the consent of the holders of the 2008 Bonds (except to the extent required under clause (iv)(B) below), if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in

circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, (ii) the Agreement as so amended would have complied with the requirements of the Rule as of the date of the Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (iii) the Authority shall have delivered to the Bond Fund Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Authority and the Bond Fund Trustee, to the same effect as set forth in clause (ii) above, (iv) either (A) the Authority shall have delivered to the Bond Fund Trustee an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Authority and the Bond Fund Trustee, to the effect that the amendment does not materially impair the interests of the holders of the 2008 Bonds or (B) the holders of the 2008 Bonds consent to the amendment to the Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of holders of 2008 Bonds pursuant to the Resolution as in effect on the date of the amendment, and (v) the Authority shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) To the extent any amendment to the Agreement results in a change in the type of financial information or operating data provided pursuant to the Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of the Agreement shall inure solely to the benefit of the holders from time to time of the 2008 Bonds, except that beneficial owners of 2008 Bonds shall be third-party beneficiaries of the Agreement.

(b) Except as provided in this paragraph (b), the provisions of the Agreement shall create no rights in any person or entity. The obligations of the Authority to comply with the provisions of the Agreement shall be enforceable by any holder of 2008 Bonds, or by the Bond Fund Trustee on behalf of the holders of 2008 Bonds; provided, however, that the Bond Fund Trustee shall not be required to take any enforcement action except at the direction for the holders of not less than 25% in aggregate principal amount of the 2008 Bonds at the time Outstanding who shall have provided the Bond Fund Trustee with adequate security and indemnity. The holders' and Bond Fund Trustee's rights, to enforce the provisions of the Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Agreement. In consideration of the third-party beneficiary status of beneficial owners of the 2008 Bonds pursuant to paragraph (a) above, beneficial owners shall be deemed to be holders of the 2008 Bonds for purposes of this paragraph (b) unless and until the respective holder exercises any rights pursuant to this paragraph (b).

(c) Any failure by the Authority of the Bond Fund Trustee to perform in accordance with the Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

Definitions

(1) "Annual Financial Information" means the financial information or operating data with respect to the Authority, for each fiscal year of the Authority, as follows:

(i) operating results;

(ii) fund balances;

(iii) power sales and revenues by customer classification;

(iv) peak demand, sales to and revenues from electric cooperative customers; municipal customers, and industrial customers;

(v) contract demand, sales to and revenues from off system firm customers;

(vi) revenues from off system spot customers;

(vii) GRDA 1 and GRDA 2 equivalent availability percentages;

(viii) sales by customer group (MWh);

(ix) energy requirements and resources (MWh); and

(x) contract peak demand and resources (MW).

Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the Authority, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that the Authority may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to each NRMSIR and the SID, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(3) "Generally Accepted Accounting Principles" means accounting principles, standards, methods and terminology followed and construed, as nearly as practicable, in conformity with the pronouncements of the Financial Accounting Standards Board (or any successor), the Governmental Accounting Standards Board (or any successor), the International Accounting Standards Board (or any successor) or any other nationally or internationally recognized accounting standards, as determined by the Authority, in each case as amended from time to time.

(4) "Material Event" means any of the following events with respect to the 2008 Bonds, whether relating to the Authority or otherwise, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the securities; and

(xi) rating changes.

(5) "Material Event Notice " means written or electronic notice of a Material Event.

(6) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(i) of the Securities Exchange Act of 1934.

(7) "NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized form time to time by the SEC for the purposes referred to in the Rule.

(8) "Official Statement" means the "final official statement", as defined in paragraph (f)(3) of the Rule, relating to the 2008 Bonds.

(9) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §249,15c2-12), as in effect on the date of the Agreement, including any official interpretations thereof.

(10) "SEC" means the United States Securities and Exchange Commission.

(11) "SID" means, at any time, a then-existing a state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Official Statement, there is not a SID.

(12) "State" means the State of Oklahoma.

(13) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

APPENDIX G

[FORM OF MUNICIPAL BOND INSURANCE POLICY]

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