

REIMBURSEMENT AGREEMENT

Dated as of September [*], 2015,

between

PUBLIC UTILITIES COMMISSION OF
THE CITY AND COUNTY OF SAN FRANCISCO

and

BANK OF AMERICA, N.A.

relating to:

\$90,000,000
PUBLIC UTILITIES COMMISSION
OF THE CITY AND COUNTY OF SAN FRANCISCO
COMMERCIAL PAPER NOTES
(POWER REVENUES)
SERIES [A-1]

REIMBURSEMENT AGREEMENT

(This Table of Contents is not a part of this
Reimbursement Agreement and is only for
convenience of reference)

ARTICLE 1	DEFINITIONS	2
Section 1.1	Definitions	2
ARTICLE 2	LETTER OF CREDIT	13
Section 2.1	Issuance of Letter of Credit	13
Section 2.2	Letter of Credit Drawings	13
Section 2.3	Reimbursement.....	13
Section 2.4	Advances; Term Loans.....	14
Section 2.5	Fees.....	16
Section 2.6	The Bank Note	16
Section 2.7	Termination of Letter of Credit; Reduction of Stated Amount.....	16
Section 2.8	Computation of Interest and Fees.....	17
Section 2.9	Payment Due on Non-Business Day to Be Made on Next Business Day	17
Section 2.10	Default Rate.....	17
Section 2.11	Source of Funds.....	17
Section 2.12	Extension of Stated Expiration Date	17
Section 2.13	Taxes	17
Section 2.14	Increased Costs.....	19
Section 2.15	Margin Regulations	20
Section 2.16	Maximum Rate; Payment of Fee.....	21
Section 2.17	Security of Obligations.....	21
Section 2.18	Commercial Paper Operations	21
Section 2.19	Method of Payment; Etc.....	22
ARTICLE 3	CONDITIONS PRECEDENT	22
Section 3.1	Conditions Precedent to Effectiveness	22
ARTICLE 4	REPRESENTATIONS AND WARRANTIES	25

TABLE OF CONTENTS

(continued)

Page

Section 4.1	Organization, Powers, Etc	25
Section 4.2	Authorization, Absence of Conflicts, Etc.....	25
Section 4.3	Binding Obligations; Security for Bank Note	25
Section 4.4	Governmental Consent or Approval	26
Section 4.5	Absence of Material Litigation	26
Section 4.6	Financial Condition	26
Section 4.7	Incorporation of Representations and Warranties	27
Section 4.8	Accuracy and Completeness of Information	27
Section 4.9	No Default	27
Section 4.10	No Proposed Legal Changes	27
Section 4.11	Compliance with Laws, Etc	28
Section 4.12	Environmental Matters	28
Section 4.13	Tax Status of Interest on Notes	28
Section 4.14	Issuing and Paying Agent; Dealers	28
Section 4.15	Regulation U	28
Section 4.16	Liens	28
Section 4.17	Sovereign Immunity	29
Section 4.18	City Business Days.....	29
Section 4.19	Usury	29
Section 4.20	Insurance	29
Section 4.21	ERISA	29
Section 4.22	Sanctions Concerns and Anti-Corruption Laws.....	29
Section 4.23	Swap Contracts.....	29
ARTICLE 5	COVENANTS.....	29
Section 5.1	Affirmative Covenants	30
Section 5.2	Negative Covenants.....	36
ARTICLE 6	DEFAULTS	41
Section 6.1	Events of Default and Remedies	41
Section 6.2	Remedies	43

TABLE OF CONTENTS
(continued)

Page

ARTICLE 7	MISCELLANEOUS.....	44
Section 7.1	Amendments, Waivers, Etc	44
Section 7.2	Notices.....	44
Section 7.3	Survival of Covenants; Successors and Assigns	45
Section 7.4	Unconditional Obligations	46
Section 7.5	Liability of Bank; Indemnification.....	46
Section 7.6	Expenses.....	47
Section 7.7	No Waiver; Conflict	48
Section 7.8	Modification, Amendment, Waiver, Etc	48
Section 7.9	Dealing with the Commission, the Issuing and Paying Agent and/or the Dealer	48
Section 7.10	Severability.....	48
Section 7.11	Counterparts	48
Section 7.12	Table of Contents; Headings	49
Section 7.13	Entire Agreement	49
Section 7.14	Governing Law Waiver of Jury Trial.....	49
Section 7.15	Governmental Regulations.....	50
Section 7.16	USA PATRIOT Act	50
Section 7.17	Electronic Transmissions	50
Section 7.18	Assignment to Federal Reserve Bank	50
Section 7.19	City Requirements.....	50
Section 7.20	Arm’s Length Transaction	51

Appendix I – Form of Letter of Credit

Exhibit A – Form of Bank Note

Exhibit B – Form of Compliance Certificate

Exhibit C – 2015 List of City Holidays

Exhibit D – City Requirements

Exhibit E – List of Qualified Dealers

This **REIMBURSEMENT AGREEMENT**, dated as of September [*], 2015 (together with any amendments or supplements hereto, this “*Agreement*”), is between the PUBLIC UTILITIES COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO (together with its successors and assigns, the “*Commission*”) and BANK OF AMERICA, N.A. (together with its successors and assigns, the “*Bank*”).

WITNESSETH:

WHEREAS, pursuant to Sections 4.112 and Article 8B of the Charter of the City and County of San Francisco (the “*Charter*”), the Commission has exclusive charge of the construction, management, supervision, maintenance, extension, operation, use and control of all water and energy supplies and utilities of the City under the Commission’s jurisdiction, including the hereinafter defined Power Enterprise;

WHEREAS, pursuant to Section 9.107(6) of the Charter, the Board of Supervisors of the City (the “*Board*”) is authorized to provide for the issuance of revenue bonds, without voter approval, issued for the purpose of the reconstruction or replacement of existing water facilities and/or electric power facilities under the jurisdiction of the Commission when authorized by resolution adopted by a three-fourths majority of all of the members of the Board;

WHEREAS, pursuant to Section 9.107(8) of the Charter, the Board is also authorized to provide for the issuance of revenue bonds, without voter approval, issued to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation;

WHEREAS, pursuant to Section 43.5.2 of the Administrative Code of the City, following Board approval of the issuance of revenue bonds by the Commission pursuant to Section 9.107 of the Charter, the Commission may incur short-term indebtedness in the form of commercial paper, temporary notes or other forms of indebtedness as long as such short-term indebtedness is incurred in anticipation of the issuance of such revenue bonds;

WHEREAS, the Commission deems it necessary and desirable and in the public interest to authorize the issuance of commercial paper notes in anticipation of the issuance of revenue bonds, payable from and secured by the revenues of the Power Enterprise, after the payment of operating and maintenance expenses and any required deposits for repairs and replacements to the Power Enterprise, under and in accordance with Section 9.107, 9.109 and 9.111 of the Charter and pursuant to the terms and conditions set forth herein, for any lawful purposes of the Power Enterprise, which commercial paper notes and the interest thereon shall constitute a subordinate lien and charge on the revenues provided for the payment thereof; and

WHEREAS, pursuant to Resolution No. 15-[___], adopted by the Commission on August [___], 2015 (the “*Resolution*”) and Ordinance No. [___]-15 adopted by the Board on September [___], 2015 by the Board and approved by the Mayor on September [___], 2012 (the “*Ordinance*”), the Commission and the Board established procedures for the issuance by the Commission of revenue bonds and commercial paper notes for its Power Enterprise and addressed certain other matters in connection therewith, including the issuance of commercial paper notes by the Commission in an aggregate principal amount not to exceed \$90,000,000 at any one time;

WHEREAS, the Commission has authorized, executed and delivered that certain Issuing and Paying Agent Agreement, dated as of September [___], 2015 (as from time to time supplemented and amended in accordance with the terms hereof and thereof, the “*Issuing and Paying Agent Agreement*”), with U.S. Bank National Association, as issuing and paying agent (the “*Issuing and Paying Agent*”), relating to the Public Utilities Commission of the City and County of San Francisco Notes (Power Revenues) Series [A-1] (Tax-Exempt) (the “*Notes*”);

WHEREAS, the Commission has requested the Bank issue a letter of credit in the original stated amount of \$97,989,042 (representing an amount supporting Notes in an aggregate principal amount of \$90,000,000 plus an amount equal to 270 days interest on such principal amount at the rate per annum of twelve percent (12%) computed on the basis of a 365-day year (and rounded up to the nearest dollar)) for the payment by the Issuing and Paying Agent, when and as due, of the principal of and interest on the Notes; and

WHEREAS, the Bank is willing to issue such letter of credit upon the terms and conditions provided herein.

NOW THEREFORE, in consideration of the premises and the mutual agreements herein contained, the Commission and the Bank agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 **Definitions.** As used in this Agreement:

“*Advance*” has the meaning set forth in Section 2.4(a) hereof.

“*Agreement*” has the meaning set forth in the introductory paragraph hereof.

“*Alternate Facility*” has the meaning set forth in the Issuing and Paying Agent Agreement.

“*Annual Budget*” means the budget or budgets prepared by the Commission in substantially the form that has been previously presented to the Bank.

“*Annual Debt Service*” has the meaning set forth in the Master Trust Indenture.

“*Applicable Law*” means (i) all applicable common law and principles of equity and (ii) all applicable provisions of all (A) constitutions, statutes, rules, regulations and orders of all governmental and non-governmental bodies, (B) Governmental Approvals and (C) orders, decisions, judgments and decrees of all courts (whether at law or in equity) and arbitrators.

“*Authorized Representative*” means each of the General Manager of the San Francisco Public Utilities Commission, Assistant General Manager and Chief Financial Officer, Business Services, Deputy Chief Financial Officer, Financial Services, Debt Manager, Financial Planning, Utility Specialist, Financial Planning, Controller of the City and County of San Francisco, Director of Public Finance, and any other individual designated from time to time as a “*Designated*”

Representative” in a certificate executed by the General Manager of the San Francisco Public Utilities Commission and delivered to the Bank.

“Available Funds” means any unencumbered amounts, including non-appropriated fund balances and reserves, and cash and the book value of investments held by the Treasurer of the City for the Power Enterprise, that the Commission reasonably expects would be available, as of any date of calculation, to pay principal (or in the case of any capital appreciation bond, the accreted value thereof) of and interest on Bonds when due.

“Available Power Enterprise Revenues” has the meaning set forth in the Issuing and Paying Agent Agreement.

“Bank” has the meaning set forth in the introductory paragraph hereof.

“Bank Agreement” means any credit agreement, liquidity agreement, standby bond purchase agreement, reimbursement agreement, direct purchase agreement, bond purchase agreement, or other agreement or instrument (or any amendment, supplement or other modification thereof) under which, directly or indirectly, any Person or Persons undertake(s) to make or provide funds to make payment of, or to purchase or provide credit enhancement for, bonds or notes of the Commission secured by or payable from Revenues (but excluding Reserve Account Credit Facility).

“Bank Note” has the meaning set forth in Section 2.6 hereof.

“Bank Rate” means, subject to the terms of Section 2.16 hereof, a rate of interest per annum with respect to an Advance or Term Loan, as applicable, (i) for any day commencing on the date such Advance is made up to and including the ninetieth (90th) day succeeding the date such Advance is made, equal to the Base Rate from time to time in effect and (ii) for any day commencing on the ninety-first (91st) day succeeding the date such Advance is made and thereafter, equal to the Base Rate from time to time in effect *plus* one percent (1.00%); *provided, further, however*, that immediately and automatically upon the occurrence of an Event of Default (and without any notice given with respect thereto) and during the continuance of such Event of Default, *“Bank Rate”* will mean the Default Rate; and *provided, further*, that at no time shall the Bank Rate be less than the highest rate on any outstanding Notes.

“Base Rate” means, for any day, the rate of interest per annum equal to the highest of: (i) the Prime Rate plus one percent (1%), (ii) the Federal Funds Rate plus two percent (2%), and (iii) seven percent (7%). Each determination of the Base Rate by the Bank shall be conclusive and binding on the Commission absent manifest error. Each change in the Base Rate will take effect simultaneously with the corresponding change or changes in the Prime Rate or the Federal Funds Rate, as the case may be.

“Basic Documents” means, at any time, each of the following documents and agreements as in effect or as outstanding, as the case may be, at such time: (a) the Notes, (b) the Resolution, (c) the Ordinance, (d) the Offering Memorandum, (e) the Dealer Agreements, (f) the Issuing and Paying Agent Agreement, (g) the Bank Note, (h) the Fee Agreement and (i) this Agreement and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing.

“Board” has the meaning set forth in the recitals hereof.

“Bond Coverage Ratio” for any Fiscal Year means the ratio of (a) (i) Net Revenues in such Fiscal Year, plus (ii) Available Funds in such Fiscal Year, to (b) Annual Debt Service on the Outstanding Bonds in such Fiscal Year.

“Bonds” has the meaning set forth in the Master Trust Indenture.

“Bond Counsel” has the meaning set forth in the Issuing and Paying Agent Agreement.

“Business Day” has the same meaning set forth in the Letter of Credit.

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

“Change in Law” means the occurrence, after the Closing Date, of any of the following: (a) the adoption or taking effect of any Law, including, without limitation Risk-Based Capital Guidelines, (b) any change in any Law or in the enforcement, administration, interpretation, implementation or application thereof by any Governmental Authority or compliance by the Bank or any Participant therewith or (c) the making or issuance of any request, rule, ruling, guideline, regulation or directive (whether or not having the force of law) by any Governmental Authority; *provided that*, notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act (or any other statute referred to therein or amended thereby) and all laws, requests, rules, regulations, policies, rulings, guidelines, regulations, standards or directives thereunder or issued in connection therewith and any interpretation, application or promulgation implementing, invoking or in any way the Dodd-Frank Wall Street Reform and Consumer Protection Act and (ii) all laws, requests, rules, rulings, standards, policies, guidelines, regulations or directives promulgated by, or in response to requests, guidelines or directives published by, the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities will, in each case, be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Charter” has the meaning set forth in the recitals hereof.

“City” has the meaning set forth in the recitals hereof.

“Closing Date” means the date on which the Letter of Credit is issued, which, subject to the satisfaction of the conditions precedent set forth in Section 3.1 hereof, is expected to be September [___], 2015.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, including regulations, rulings and judicial decisions promulgated thereunder.

“Commission” has the meaning set forth in the introductory paragraph hereof.

“Consulting Engineer” has the meaning set forth in the Master Trust Indenture.

“Dealers” means the dealer or dealers selected from time to time by the Commission (and acceptable to the Bank) to market the Notes pursuant to the terms of any applicable Dealer Agreement and any permitted assigns and successors thereto.

“Dealer Agreement” means each dealer agreement by and between the Commission and a Dealer, in form and substance reasonably acceptable to the Bank, as such agreement may be amended and supplemented from time to time in accordance with the terms thereof and hereof.

“Debt” of any Person means, at any date, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations of such Person as lessee under capital leases, (e) all debt of others secured by a Lien on any asset of such Person, whether or not such debt is assumed by such Person, (f) all Guarantees by such Person of debt of other Persons, (g) all obligations of such Person under any Swap Contract and (h) all obligations of such Person to reimburse or repay any bank or other Person in respect of amounts paid or advanced under a letter of credit, credit agreement, liquidity facility or other instrument.

“Default” means any condition or event which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Default Rate” means, for any day, subject to the terms of Section 2.16 hereof, a per annum rate of interest equal to the sum of the Base Rate from time to time in effect *plus* four percent (4.00%).

“Designated Jurisdiction” means any country or territory to the extent that such country or territory itself is the subject of any Sanction.

“Drawing” has the meaning set forth in Section 2.3 hereof.

“DTC” means The Depository Trust Company, New York, New York, and any successor securities depository.

“Employee Plan” means an employee benefit plan covered by Title IV of ERISA and maintained for employees of the Commission.

“Environmental Laws” means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the clean-up or other remediation thereof.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto.

“*Event of Default*” has the meaning set forth in Section 6.1 hereof.

“*Excluded Taxes*” means, with respect to the Bank or any Participant, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which the Bank or such Participant is organized or in which its principal office is located and (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Commission is located.

“*Federal Funds Rate*” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided* that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Bank on such day on such transactions as determined by the Bank. Each determination of the Federal Funds Rate by the Bank shall be deemed conclusive and binding on the Commission absent manifest error.

“*Fee Agreement*” means the Fee Agreement dated the Closing Date between the Commission and the Bank, as supplemented and amended from time to time.

“*Final Drawing Notice*” has the meaning set forth in the Letter of Credit.

“*Fiscal Year*” has the meaning set forth in the Master Trust Indenture.

“*Fitch*” means Fitch Ratings, Inc.

“*GAAP*” means generally accepted accounting principles in the United States of America from time to time as set forth in (a) the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and (b) statements and pronouncements of the Government Accounting Standards Board, as modified by the opinions, statements and pronouncements of any similar accounting body of comparable standing having authority over accounting by governmental entities.

“*Governmental Approval*” means an authorization, consent, approval, license or exemption of, registration or filing with, or report to, any Governmental Authority.

“*Governmental Authority*” means the government of the United States or any other nation or any political subdivision thereof or any governmental or quasi-governmental entity, including any court, department, commission, board, bureau, agency, administration, central bank, service, district or other instrumentality of any governmental entity or other entity exercising executive,

legislative, judicial, taxing, regulatory, fiscal, monetary or administrative powers or functions of or pertaining to government, or any arbitrator, mediator or other Person with authority to bind a party at law.

“Guarantees” means, for any Person, all guarantees, endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations of such Person to purchase, to provide funds for payment, to supply funds to invest in any other Person or otherwise to assure a creditor of another Person against loss.

“Hetch Hetchy Project” means the Hetch Hetchy Water and Power Project, including the O’Shaughnessy Dam, the Hetch Hetchy Reservoir, the Canyon and Mountain Tunnels, the Kirkwood, Moccasin and Holms Powerhouses, Cherry Lake and its dam, Lake Eleanor and its dam, the related water storage and transportation and hydro-electric generating facilities down to and including the Moccasin Powerhouse, all located in Yosemite National Park, Stanislaus National Forest and Tuolumne County, the rights to which were granted to the City by the Raker Act of 1913, and the related transmission facilities down to the City of Newark.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Investment Policy and Guidelines” means the investment guidelines of the City as in effect on the date hereof, as such investment guidelines may be amended from time to time in accordance with the Issuing and Paying Agent Agreement, the Resolutions and State laws, as applicable.

“Issuing and Paying Agent” has the meaning set forth in the recitals to this Agreement.

“Issuing and Paying Agent Agreement” has the meaning set forth in the recitals to this Agreement.

“Law” means any treaty or any Federal, regional, state and local law, statute, rule, ordinance, regulation, code, license, authorization, decision, injunction, interpretation, policy, guideline, supervisory standard, order or decree of any court or other Governmental Authority.

“Letter of Credit” means the irrevocable letter of credit issued by the Bank for the account of the Commission in favor of the Issuing and Paying Agent supporting the Notes, in the form of Appendix I hereto, with appropriate insertions, as amended.

“Lien” means, with respect to any asset, (a) any lien, charge, claim, mortgage, security interest, pledge or assignment of revenues of any kind in respect of such asset or (b) the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

“Master Trust Indenture” means the Trust Indenture, dated as of May 1, 2015, between the Commission and U.S. Bank National Association, as trustee for the holders from time to time of the Commission’s power revenue bonds.

“Material Litigation” shall have the meaning assigned to such term in Section 4.5.

“Maximum Rate” means the lesser of (a) the maximum non-usurious interest rate that may, under applicable federal law and applicable state law, be contracted for, charged or received under such laws and (b) 12% per annum; *provided, however*, that if the City or the Commission increases the maximum rate allowable, which currently set forth in clause (b) of this “Maximum Rate” definition, at any time during the term hereof, then such increased rate shall be the Maximum Rate.

“Moody’s” means Moody’s Investors Service, Inc.

“Net Revenues” for any Fiscal Year (or other designated twelve-month period) means Revenues in such Fiscal Year (or other designated twelve-month period), *less* (a) Operation and Maintenance Expenses, and (b) any Priority R&R Fund Deposit for such Fiscal Year (or other designated twelve-month period).

“No-Issuance Notice” has the meaning set forth in the Letter of Credit.

“Notes” has the meaning set forth in the recitals to this Agreement.

“Obligations” means the Reimbursement Obligations (which includes amounts owing to the Bank evidenced by the Bank Note) and all other obligations of the Commission to the Bank arising under or in relation to this Agreement or the Fee Agreement.

“Offering Memorandum” means any offering memorandum or similar disclosure document relating to the Notes, among others, and the Commission as may be prepared by or on behalf of the Commission or the Dealers from time to time in connection with the offering and sale of Notes.

“Operation and Maintenance Expenses” means the costs of the proper operation, maintenance and repair of the Power Enterprise and taxes, assessments or other governmental charges lawfully imposed on the Power Enterprise or the Revenues, or payments in lieu thereof, as determined in accordance with GAAP (as defined in the Master Trust Indenture). Operation and Maintenance Expenses shall include the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board may require with respect to employees of the Power Enterprise, as provided in Section 16.103(a) of the Charter. Operation and Maintenance Expenses shall also include repairs and maintenance costs that constitute operating expenses in accordance with GAAP (as defined in the Master Trust Indenture). Operation and Maintenance Expenses shall not include (a) any allowance for amortization, depreciation or obsolescence, (b) operation and maintenance expenses of the Water Enterprise, (c) operation and maintenance expenses of the Wastewater Enterprise, (d) operation and maintenance expenses of any Separate System, (e) any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or by any source that is not included or includable as Revenues, (e) losses from any sale or other disposition of Power Enterprise assets, and (g) non-cash losses and costs that may be required or permitted under GAAP (as defined in the Master Trust Indenture) to be expensed, including deferred expenses and unrealized mark-to-market losses.

“Ordinance” has the meaning set forth in the recitals hereof.

“Original Stated Amount” has the meaning set forth in Section 2.1 hereof.

“Other Debt Documents” has the meaning set forth in Section 5.1(c)(i) hereof.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Basic Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Basic Document.

“Parity Debt” means the Bank Note and Parity Notes.

“Parity Notes” has the meaning set forth in the Issuing and Paying Agent Agreement.

“Participant” has the meaning set forth in Section 7.3(b) hereof.

“Participation” has the meaning set forth in Section 7.3(b) hereof.

“Payment Account” means the payment account for the Bank set forth in Section 7.2 hereof.

“Person” means an individual, a firm, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

“Power Enterprise” means the Commission’s Power Enterprise established and existing as of the date of the Master Trust Indenture to provide electric power and related services to the City and its departments, agencies and commissions as well as other customers both in and outside of the City, including that portion of the Hetch Hetchy Project used for power generation, and all other power generation, transmission and distribution facilities and related facilities, streetlights, property and rights constituting a part of the Power Enterprise, together with any and all additions, improvements, betterments, renewals, replacements and repairs thereto and extensions thereof, but shall not include: (a) the Water Enterprise, (b) the Wastewater Enterprise, or (c) any Separate System.

“Power Enterprise Debt” means Debt of the Commission secured by Revenues, including, without limitation, Bonds, Notes and Parity Debt.

“Prime Rate” means on any day, the rate of interest in effect for such day as publicly announced from time to time by the Bank as its “prime rate.” The “*prime rate*” is a rate set by the Bank based upon various factors including the Bank’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by the Bank shall take effect at the opening of business on the day specified in the public announcement of such change.

“Priority R&R Fund Deposits” means, for any Fiscal Year or other designated twelve-month period, the amount, if any, required by the Charter to be deposited in the Reconstruction and

Replacement Fund established pursuant to the Master Trust Indenture from Revenues prior to deposits in such Fiscal Year into the Bond Fund established pursuant to the Master Trust Indenture.

“Program Size” means \$90,000,000 less the aggregate amount, if any, of all Reduction Amounts.

“Property” means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, whether now owned or hereafter acquired.

“Quarterly Date” means the first Business Day of each March, June, September or December.

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

“Qualified Dealer” means, (i) _____, (ii) _____, (iii) any other financial institution on the list set forth in Exhibit E hereto which financial institution (or any parent or affiliate of such financial institution) has capital of not less than \$500,000,000, and underlying ratings from Moody’s, S&P and Fitch of at least “A3” (or its equivalent), “A-” (or its equivalent) and “A-” (or its equivalent), respectively (unless, in each instance, the Bank in its discretion provides in writing an exception for a particular Dealer under specified circumstances), and (iv) at any time after the Closing Date, any other financial institution (or any parent or affiliate of such financial institution) with capital of not less than \$500,000,000, and underlying ratings from Moody’s, S&P and Fitch of at least “A3” (or its equivalent), “A-” (or its equivalent) and “A-” (or its equivalent), respectively (unless, in each instance, the Bank in its sole discretion consents in writing to any other financial institution acting as a Dealer) approved in writing by the Bank, which approval shall not be unreasonably withheld or delayed.

“Rating Agency” and *“Rating Agencies”* means, individually or collectively, as applicable, Fitch, Moody’s and S&P.

“Reduction Amount” has the meaning set forth in Section 2.18(c) hereof.

“Refundable Credits” means amounts payable by the Federal government to the Commission under direct-pay subsidy programs substantially similar to the Build America Bond program under Section 54AA of the Code.

“Reimbursement Obligations” means any and all obligations of the Commission to reimburse the Bank for Drawings under the Letter of Credit and all obligations to repay the Bank

for any Advance or Term Loan, including in each instance all interest accrued thereon, which obligations are evidenced and secured by the Bank Note.

“Reserve Account Credit Facility” has the meaning set forth in the Master Trust Indenture.

“Resolution” has the meaning set forth in the recitals hereof.

“Revenues” means all revenues, rates and charges received and accrued by the Commission for electric power and energy and other services, facilities and commodities sold, furnished or supplied by the Power Enterprise, together with income, earnings and profits therefrom (including interest earnings on the proceeds of any Bonds pending application thereof), as determined in accordance with GAAP (as defined in the Master Trust Indenture). Revenues shall include payments to the Power Enterprise on or with respect to loans from any Separate System maintained by the Commission. Revenues shall not include (a) proceeds from the issuance of any obligations for borrowed money, (b) amounts loaned to the Power Enterprise, (c) Swap Agreement Receipts, (d) proceeds from taxes, (e) customer deposits while retained as such, (f) contributions in aid of construction, (g) gifts, (h) grants, (i) insurance or condemnation proceeds that are properly allocable to a capital account, (j) non-cash revenues or gains that may be required or permitted under GAAP (as defined in the Master Trust Indenture), including mark-to-market gains and deferred revenues, (k) money received by the Commission as the proceeds of the sale of any portion of the properties of the Power Enterprise, (l) amounts by their terms not available for the payment of Operation and Maintenance Expenses or principal and interest on the Bonds, (m) Refundable Credits; (n) revenues of any Separate System, (n) Water Enterprise revenues as defined in the document or agreement governing the then-outstanding senior lien obligations of the Water Enterprise for borrowed money, and (o) Wastewater Enterprise revenues as defined in the document or agreement governing the then-outstanding senior lien obligations of the Wastewater Enterprise for borrowed money.

“Risk-Based Capital Guidelines” means (i) the risk-based capital guidelines in effect in the United States, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States including transition rules, and any amendments to such regulations.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business.

“Sanction(s)” means any international economic sanction administered or enforced by the United States Government (including, without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty’s Treasury or other relevant sanctions authority.

“Senior Debt” means any Debt issued or incurred by the Commission and secured by or payable from Revenues on a basis senior or superior to the Lien in favor of the Notes and other Parity Notes and includes, without limitation, the Bonds.

“Separate System” means any electric power or energy generation, transmission, distribution or other facilities, property and rights that may be hereafter purchased, constructed or otherwise acquired by the Commission where the revenues derived from the ownership and operation of which shall be pledged to the payment of bonds or other obligations for borrowed

money issued or incurred to purchase, construct or otherwise acquire such facilities, property and rights and shall not be included in Revenues and the operation and maintenance expenses with respect to which shall not be included in Operation and Maintenance Expenses.

“*Series*” has the meaning set forth in the Master Trust Indenture.

“*State*” means the State of California.

“*Stated Amount*” has the meaning set forth in the Letter of Credit.

“*Stated Expiration Date*” has the meaning set forth in the Letter of Credit.

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

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

“*Taxes*” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, fines, additions to tax or penalties applicable thereto.

“*Term Loan*” has the meaning set forth in Section 2.4(e) hereof.

“*Term Loan Conversion Date*” has the meaning set forth in Section 2.4(b) hereof.

“*Term Loan Maturity Date*” means, with respect to any Term Loan, the earliest of (a) the third anniversary of the Term Loan Conversion Date for such Term Loan, (b) the third anniversary of the Stated Expiration Date as in effect on the date on which the related Term Loan was made, (c) the date an Alternate Facility becomes effective in accordance with Section 9.02 of the Issuing and Paying Agent Agreement, (d) the date on which the Stated Amount is permanently reduced to zero or the Letter of Credit is otherwise terminated prior to the Stated Expiration Date, including as a result of the occurrence of an Event of Default and (e) the Business Day when Notes or bonds are sold to fund the repayment of any Term Loan.

“*Termination Date*” has the meaning set forth in the Letter of Credit.

“2014 Audited Financial Statements” has the meaning set forth in Section 4.6

“Unpaid Drawing” has the meaning set forth in Section 2.3 hereof.

“Wastewater Enterprise” means the municipal sanitary waste and storm water collection, treatment and disposal system, as located partially within and partially without the City, and all additions, betterments, and extensions to said sanitary waste and storm water system.

“Water Enterprise” means the municipal water supply, storage and distribution system of the Commission, as located partially within and partially without the City, including all of the presently existing municipal water system of the City, and all additions, betterments, and extensions to said water system, but excluding any water supply, storage or distribution facilities which constitute part of the Hetch Hetchy Project.

The foregoing definitions are equally applicable to both the singular and plural forms of the defined terms. Any capitalized terms used herein which are not specifically defined herein have the same meanings herein as in the Issuing and Paying Agent Agreement. All references in this Agreement to times of day are references to New York time unless otherwise expressly provided herein. Unless otherwise inconsistent with the terms of this Agreement, all accounting terms are interpreted and all accounting determinations hereunder are made in accordance with GAAP.

ARTICLE 2

LETTER OF CREDIT

Section 2.1 **Issuance of Letter of Credit.** Upon the terms, subject to the conditions and relying upon the representations and warranties set forth in this Agreement or incorporated into Section 4.7 hereof, the Bank agrees to issue the Letter of Credit substantially in the form of Appendix I hereto. The Letter of Credit will be in the original stated amount of \$97,989,042 (the “*Original Stated Amount*”), which is the sum of (i) the aggregate principal amount of the Notes authorized to be issued under the Issuing and Paying Agent Agreement, plus (ii) interest thereon at the rate of 12 percent (12%) per annum for a period of two hundred seventy (270) days calculated on the basis of a 365-day year (and rounded up to the nearest dollar).

Section 2.2 **Letter of Credit Drawings.** The Issuing and Paying Agent is authorized to make Drawings under the Letter of Credit in accordance with its terms. The Commission authorizes the Bank to make payments under the Letter of Credit in the manner therein provided. The Commission irrevocably approves reductions and reinstatements of the Stated Amount as provided in the Letter of Credit.

Section 2.3 **Reimbursement.** Subject to the provisions of Section 2.4 hereof, the Commission agrees to pay, or to cause to be paid, to the Bank (i) on each date on which the Bank honors any demand for payment under the Letter of Credit (each such payment by the Bank being referred to as a “*Drawing*”) a sum equal to the amount so paid under the Letter of Credit (any amount so paid until reimbursed being referred to as an “*Unpaid Drawing*”), plus (ii) interest on the amount of each such Unpaid Drawing from and including the date such Drawing is paid until

the Bank is reimbursed in full for such Drawing equal to the Default Rate. Subject to the provisions of Section 2.4 hereof respecting Advances (each of which Advances when made will constitute reimbursement of a Drawing in an amount equal to the amount of such Advance), the Commission is obligated, without notice of a Drawing or demand for reimbursement (which notice is waived by the Commission), to reimburse the Bank for all Drawings on the same day as made. The amount of any Drawing relating to accrued interest on the related Notes must be reimbursed by the Commission on the date on which such Drawing is made. The Commission and the Bank agree that the reimbursement in full of each Drawing on the day such Drawing is made is intended to be a contemporaneous exchange for new value given to the Commission by the Bank. If a Drawing is reimbursed at or prior to 4:00 p.m. on the same day on which it is made, no interest will be payable on such Drawing.

Section 2.4 **Advances; Term Loans.**

(a) *Making of Advances.* The Bank agrees that if (i) the Bank pays any Drawing under the Letter of Credit, (ii) the portion of such Drawing relating to the principal amount of the related Notes will not be reimbursed in full on the date of such Drawing by payment to the Bank as provided in Section 2.3 hereof and (iii) (A) the representations and warranties of the Commission contained in Article Four of this Agreement are true and correct as of the date of such Drawing, (B) no Material Litigation shall be pending; (C) no event has occurred and is continuing which has or is having a material adverse effect on the Commission's obligations under this Agreement, the Fee Agreement, the Bank Note or the any of the other Basic Documents to which the Commission is a party or the ability of the Commission to perform its obligations in connection herewith or therewith and (D) no Default or Event of Default has occurred and is continuing on the date of such Drawing, the portion of such Drawing relating to the principal amount of the related Notes (or the portion thereof) which is not so reimbursed by the Commission to the Bank will automatically constitute an advance (individually an "*Advance*" and, collectively, the "*Advances*") made by the Bank to the Commission on the date of and in an amount equal to the amount of such Drawing relating to the principal amount of the related Notes (or portion thereof) which is not so reimbursed by the Commission to the Bank. For purposes of Section 2.3 hereof, each Advance when made will constitute reimbursement of the portion of the related Drawing relating to the principal amount of the related Notes in an amount equal to the amount of such Advance; and each Advance when made will preclude, to the extent of the amount of such Advance, the portion of the related Drawing relating to the principal amount of the related Notes from being or constituting an Unpaid Drawing. Unless the Commission has otherwise previously advised the Bank in writing, payment by the Bank of any Drawing under the Letter of Credit will be deemed to constitute a representation and warranty by the Commission that on the date of such Drawing (i) the representations and warranties of the Commission contained in Article Four hereof are true and correct on such date, (ii) no Material Litigation shall be pending on such date, (iii) no event has occurred and is continuing which has or is having a material adverse effect on the Commission's obligations under this Agreement, the Fee Agreement, the Bank Note or the any of the other Basic Documents to which the Commission is a party or the ability of the Commission to perform its obligations in connection herewith or therewith and (iv) no Default or Event of Default has occurred and is continuing on such date.

(b) *Payment of Principal and Interest on Advances.* Except as otherwise required or permitted by Section 2.4(c), 2.4(d) or 2.4(e) of this Agreement, the Commission shall repay, or cause to be repaid, the unpaid principal amount of each Advance on the earlier to occur of (i) the

ninetieth (90th) day following the date such Advance was made and (ii) the Termination Date (with respect to such Advance, the “*Term Loan Conversion Date*”). The Commission shall pay interest on the unpaid amount of each Advance from the date of such Advance until paid in full at the Bank Rate from time to time in effect; *provided* that, from and after the occurrence of an Event of Default, each Advance will bear interest at the Default Rate. Interest on each Advance shall be payable monthly, in arrears, on the first Business Day of each month (commencing with the first such date to occur after the making of the related Advance) and upon prepayment or maturity of such Advance. The amount of accrued interest on any Advance must be reimbursed by the Commission on the Term Loan Conversion Date.

(c) *Mandatory Prepayment of Advances and Term Loans.* The Commission shall prepay Advances and Term Loans if the aggregate proceeds of the issuance of Notes exceed the aggregate principal amount of Notes maturing on the date of such issuance. On the date of each such prepayment of Advances or Term Loans, as applicable (or portions thereof), the Commission shall pay to the Bank interest accrued and unpaid to the date of such prepayment on the aggregate amount of the Advances and Term Loans (or portions thereof) prepaid. Upon the Bank’s receipt of any payment or prepayment of any Advance or Term Loan, the amount of such Advance and/or Term Loan shall be reduced by the amount of such payment or prepayment. Any prepayment pursuant to this paragraph (c) or paragraph (d) below will be applied first to outstanding Term Loans, in the inverse order of maturity, and then to outstanding Advances in the inverse order of maturity.

(d) *Optional Prepayment.* The Commission may prepay Advances in whole, or in part in a minimum amount of \$500,000 and in integral multiples of \$100,000 in excess thereof, in each case without penalty or premium, on one Business Day’s prior written notice, such prepayment to be applied as set forth in paragraph (c) above.

(e) *Term Loan Option.* On a Term Loan Conversion Date, each Advance maturing on such date will, if the conditions set forth in Section 2.4(f) hereof have been satisfied, be converted to a term loan (a “*Term Loan*”).

(f) *Conditions Precedent to Term Loans.* Principal amounts owed by the Commission for Advances remaining unpaid on their respective Term Loan Conversion Dates will be converted to Term Loans if and only if:

(i) the representations and warranties of the Commission contained in Article Four of this Agreement are true and correct on and as of the Term Loan Conversion Date, and deemed made as of such date, as though made on and as of such date;

(ii) no Material Litigation shall be pending;

(iii) no event has occurred and is continuing which has or is having a material adverse effect on the Commission’s obligations under this Agreement, the Fee Agreement, the Bank Note or the any of the other Basic Documents to which the Commission is a party or the ability of the Commission to perform its obligations in connection herewith or therewith;

(iv) no Default or Event of Default has occurred and is continuing or would result from converting the Advance to a Term Loan; and

(v) neither a No-Issuance Notice nor a Final Drawing Notice is in effect.

(g) *Repayment of Term Loans.* The Commission agrees to pay to the Bank an amount equal to the unpaid principal amount of each Term Loan made by the Bank, together with interest thereon from and including the Term Loan Conversion Date to but excluding the date the Bank is reimbursed therefor at a rate per annum equal to the Bank Rate; *provided* that, from and after the occurrence of an Event of Default, each Term Loan will bear interest at the Default Rate. Interest on the unpaid balance of each Term Loan must be paid to the Bank monthly in arrears on the first Business Day of each calendar month during the term of such Term Loan (commencing with the first such date to occur after the applicable Term Loan Conversion Date) and on the Term Loan Maturity Date. Each Term Loan must be repaid in equal (or as nearly as possible) quarterly installments (each such installment referred to as a “*Principal Payment*”), such Principal Payments to commence on the first Quarterly Date that is at least ninety (90) days following the date of the related Advance and on each Quarterly Date thereafter and with the final installment being due and payable on the Term Loan Maturity Date, until paid in full; *provided* that the unpaid amount of each Term Loan must be paid in full not later than the applicable Term Loan Maturity Date; *provided, further*, that if the Commission elects to prepay a Term Loan in part, such prepayment will be applied (i) to the Term Loans in inverse order of the Term Loan Conversion Dates of the Term Loans and (ii) to the remaining Principal Payments relating to each Term Loan prepaid in inverse order of the due dates of such Principal Payments.

(h) *Prepayment of Term Loans.* The Authority may prepay any Term Loan in whole, or in part in a minimum amount of \$500,000 and in integral multiples of \$100,000 in excess thereof, in each case without penalty, on two Business Days’ prior written notice, such prepayment to be applied as set forth in paragraph (g) above.

Section 2.5 Fees. The Commission agrees to pay and perform its obligations provided for in the Fee Agreement, including the payment of all fees and expenses provided for therein in the amounts and on the dates set forth therein. The terms and provisions of the Fee Agreement are incorporated herein by reference. All references to amounts due under this Agreement will be deemed to include all amounts and obligations (including, but not limited to, fees and expenses) due under the Fee Agreement. All fees paid under this Agreement and the Fee Agreement will be fully earned when due and nonrefundable when paid.

Section 2.6 The Bank Note. All Reimbursement Obligations will be evidenced by one promissory note of the Commission, designated “San Francisco Public Utilities Commission Series [A-1] Bank Note, (Power Revenues),” in substantially the form of Exhibit A hereto (the “*Bank Note*”), to be issued on the Closing Date, payable to the Bank in a principal amount equal to the Original Stated Amount. All Reimbursement Obligations owed to the Bank and all payments and prepayments made on account of principal and interest thereof will be recorded by the Bank on the schedule (or a continuation thereof) attached to the Bank Note, it being understood, however, that failure by the Bank to make any such endorsement will not affect the obligations of the Commission hereunder or under the Bank Note in respect of unpaid principal of and interest on the Reimbursement Obligations. The Commission shall pay principal and interest on the Bank Note on the dates and at the rates provided for in Sections 2.3 and 2.4 hereof with respect to Unpaid Drawings, Advances and Term Loans. The Commission’s obligations to repay each Advance and Term Loan and to pay interest thereon as provided herein shall be evidenced and secured by the Bank Note, and the Commission shall redeem the Bank Note on each date on which the

Commission is required to make a principal payment on an Advance or Term Loan, as applicable, in an amount equal to the Advance or Term Loan payment, as applicable, due on such date.

Section 2.7 Termination of Letter of Credit; Reduction of Stated Amount.

(a) Notwithstanding any provision of this Agreement to the contrary, the Commission agrees not to terminate or replace the Letter of Credit, except upon (i) the payment to the Bank of all Obligations payable hereunder and under the Bank Note and the Fee Agreement and (ii) the Commission providing the Bank with thirty (30) days' prior written notice of its intent to terminate or replace the Letter of Credit; *provided* that all Obligations to the Bank must be paid to the Bank at or prior to the time of termination and any such termination or replacement of the Letter of Credit must be in compliance with the terms of the Issuing and Paying Agent Agreement.

(b) Notwithstanding any provision of this Agreement to the contrary, the Commission agrees not to permanently reduce the Stated Amount, except upon the Commission providing the Bank with thirty (30) days' prior written notice of its intent to permanently reduce the Stated Amount.

Section 2.8 Computation of Interest and Fees. Fees payable hereunder and under the Fee Agreement will be calculated on the basis of a year of 360 days and the actual number of days elapsed. Interest payable hereunder and under the Bank Note will be calculated on the basis of a year of 365 or 366 days, as the case may be, and the actual number of days elapsed. Interest will accrue during each period during which interest is computed from and including the first day thereof to but excluding the last day thereof.

Section 2.9 Payment Due on Non-Business Day to Be Made on Next Business Day. If any sum becomes payable pursuant to this Agreement on a day which is not a Business Day, the date for payment thereof will be extended, without penalty, to the next succeeding Business Day, and such extended time will be included in the computation of interest and fees.

Section 2.10 Default Rate. If any Obligation is not paid when due, such Obligation will bear interest until paid in full at a rate per annum equal to the Default Rate, payable on demand. Upon the occurrence and during the continuance of an Event of Default, the Obligations of the Commission hereunder will bear interest at the Default Rate, which interest will be payable by the Commission to the Bank upon demand therefor and be calculated on the basis of a 365- or 366-day year, as the case may be, and actual days elapsed.

Section 2.11 Source of Funds. All payments made by the Bank pursuant to the Letter of Credit will be made from funds of the Bank and not from the funds of any other Person.

Section 2.12 Extension of Stated Expiration Date. If the Commission on any date which is not more than one hundred twenty (120) days nor less than ninety (90) days prior to the Stated Expiration Date (as the same may be extended from time to time) submits to the Bank a written request for an extension of the Stated Expiration Date for a period as specified in such written request (not to exceed three years), the Bank shall make reasonable efforts to respond to such request within thirty (30) days after receipt of all information necessary, in the Bank's reasonable judgment, to permit the Bank to make an informed credit decision. If the Bank fails to definitively respond to such request within such period of time, the Bank will be deemed to have refused to

grant the extension requested. The Bank may, in its sole and absolute discretion, decide to accept or reject any such proposed extension, and no extension will become effective unless the Bank has consented thereto in writing. The consent of the Bank, if granted, is conditioned upon the preparation, execution and delivery of documentation in form and substance reasonably satisfactory to the Bank and consistent with this Agreement. If such an extension request is accepted by the Bank in its sole and absolute discretion, the then current Stated Expiration Date for the Letter of Credit will be extended to the date agreed to by the Commission and the Bank.

Section 2.13 **Taxes.**

(a) *Payments Free of Taxes.* Any and all payments by or on account of any obligation of the Commission hereunder, under the Bank Note or under the Fee Agreement must be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes; *provided* that if the Commission is required by Applicable Law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable will be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Bank or any Participant receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Commission shall make such deductions and (iii) the Commission shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with Applicable Law.

(b) *Payment of Other Taxes by the Commission.* Without limiting the provisions of paragraph (a) above, the Commission shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with Applicable Law.

(c) *Indemnification by the Commission.* The Commission shall indemnify the Bank and each Participant, within thirty (30) days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Bank or such Participant and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate stating the amount of such payment or liability delivered to the Commission by the Bank or any Participant will be conclusive absent manifest error. In addition, the Commission shall indemnify the Bank and each Participant, within thirty (30) days after demand therefor, for any incremental Taxes that may become payable by the Bank or such Participant as a result of any failure of the Commission to pay any Taxes when due to the appropriate Governmental Authority or to deliver to the Bank or such Participant pursuant to paragraph (d) below, documentation evidencing the payment of Taxes.

(d) *Evidence of Payments.* As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Commission to a Governmental Authority, the Commission shall deliver to the Bank or the applicable Participant the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Bank or such Participant, as applicable.

(e) *Treatment of Certain Refunds.* If the Bank or any Participant determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been

indemnified pursuant to this Section (including additional amounts paid by the Commission pursuant to this Section), it shall pay to the applicable indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Bank or such Participant, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); *provided* that the applicable indemnifying party, upon the request of the Bank or such Participant, as applicable, agrees to repay the amount paid over pursuant to this Section (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Bank or such Participant in the event the Bank or such Participant is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this paragraph (e), in no event will the Bank or any Participant be required to pay any amount to an indemnifying party pursuant to this paragraph (e) the payment of which would place the Bank or such Participant in a less favorable net after-Tax position than the Bank or such Participant would have been in if the indemnification payments or additional amounts giving rise to such refund had never been paid. This paragraph will not be construed to require the Bank or any Participant to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Commission or any other Person.

(f) *Survival.* Without prejudice to the survival of any other agreement of the Commission hereunder, the agreements and obligations of the Commission contained in this Section will survive the termination of this Agreement and the Letter of Credit and the payment in full of the Bonds and the obligations of the Commission thereunder and hereunder.

Section 2.14 **Increased Costs.**

(a) *Increased Costs Generally.* If any Change in Law:

(i) imposes, modifies or deems applicable any reserve, liquidity ratio, special deposit, insurance premium, fee, financial charge, monetary burden, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or advances, loans or other credit extended or participated in by, the Bank or any Participant, or funding any Drawing under the Letter of Credit or maintaining the Letter of Credit, or complying with any term of this Agreement, or against assets held by, or deposits with or for the account of, the Bank or such Participant;

(ii) subjects the Bank or any Participant to any Tax of any kind whatsoever with respect to this Agreement, the Bank Note, the Fee Agreement or the Letter of Credit or changes the basis of taxation of payments to the Bank or such Participant in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 2.13 and the imposition of, or any change in the rate of, any Excluded Tax payable by the Bank or any Participant);

(iii) subject credits or commitments to extend credit extended by the Bank or any Participant to any assessment or other cost imposed by the Federal Deposit Insurance Corporation or any successor thereto; or

(iv) imposes on the Bank or any Participant any other condition, cost or expense affecting this Agreement, the Bank Note, the Fee Agreement or the Letter of Credit;

and the result of any of the foregoing is to increase the cost to the Bank or such Participant related to funding any Drawing under the Letter of Credit or issuing or maintaining the Letter of Credit or its participation therein, as the case may be, or to reduce the amount of any sum received or receivable by the Bank or such Participant hereunder, under the Bank Note or under the Fee Agreement (whether of principal, interest or any other amount), then, upon written request of the Bank or such Participant as set forth in paragraph (c) of this Section, the Commission shall promptly pay to the Bank or such Participant, as the case may be, such additional amount or amounts as will compensate the Bank or such Participant, as the case may be, for such additional costs incurred or reduction suffered.

(b) *Capital Requirements.* If the Bank or any Participant determines that any Change in Law affecting the Bank or such Participant or the Bank's or such Participant's holding company, if any, regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on the Bank's or such Participant's capital or liquidity or on the capital or liquidity of the Bank's or such Participant's holding company, if any, as a consequence of this Agreement, the Bank Note, the Fee Agreement or the Letter of Credit, to a level below that which the Bank or such Participant or the Bank's or such Participant's holding company could have achieved but for such Change in Law (taking into consideration the Bank's or such Participant's policies and the policies of the Bank's or such Participant's holding company with respect to capital adequacy), then from time to time, upon written request of the Bank or such Participant as set forth in paragraph (c) of this Section, the Commission will pay to the Bank or such Participant such additional amount or amounts as will compensate the Bank or such Participant or the Bank's or such Participant's holding company for any such reduction suffered. Notwithstanding the foregoing, the amount that any Participant will be entitled to receive under this Section 2.14(b) will in no event exceed the amount that the Bank would have been entitled to receive under this Section 2.14(b) had such Participant's funding obligation been a direct obligation of the Bank.

(c) *Certificates for Reimbursement.* A certificate of the Bank or a Participant setting forth the amount or amounts necessary to compensate the Bank or such Participant or the Bank's or such Participant's parent or holding company, as the case may be, as specified in paragraph (a) or (b) of this Section and delivered to the Commission, will be conclusive absent manifest error. The Commission shall pay the Bank or such Participant, as the case may be, the amount shown as due on any such certificate within thirty (30) days after receipt thereof.

(d) *Delay in Requests.* Failure or delay on the part of the Bank or any Participant to demand compensation pursuant to this Section will not constitute a waiver of the Bank's or such Participant's right to demand such compensation; *provided* that the Commission is not required to compensate the Bank or such Participant pursuant to this Section for any increased costs incurred or reductions suffered more than one hundred eighty (180) days prior to the date that the Bank or such Participant, as the case may be, notifies the Commission of the Change in Law giving rise to such increased costs or reductions, and of the Bank's or such Participant's intention to claim compensation therefor (except that (i) if the Change of Law giving rise to such increased costs or reductions is retroactive, then the one hundred eighty day period referred to above will be extended to include the period of retroactive effect thereof and (ii) if the Bank or any such Participant had no actual knowledge of the action resulting in such increased costs as of the date six months prior to the date of notice to the Commission, then the six-month period referred to above will not apply).

(e) *Survival.* Without prejudice to the survival of any other agreement of the Commission hereunder, the agreements and obligations of the Commission contained in this Section will survive the termination of this Agreement and the Letter of Credit and the payment in full of the Bank Note and the obligations of the Commission thereunder and hereunder.

Section 2.15 Margin Regulations. No portion of the proceeds of any Drawing under the Letter of Credit may be used by the Commission (or the Issuing and Paying Agent or any other Person on behalf of the Commission) for the purpose of “purchasing” or “carrying” any margin stock or used in any manner which might cause the borrowing or the application of such proceeds to violate Regulation U, Regulation T or Regulation X of the Board of Governors of the Federal Reserve System or any other regulation of said Board of Governors or to violate the Securities Exchange Act of 1934, as amended, in each case as in effect on the date or dates of such Drawings or such use of proceeds.

Section 2.16 Maximum Rate; Payment of Fee. Anything in Section 2.3, 2.4 or 2.10 hereof to the contrary notwithstanding, the amount of interest payable hereunder for any interest period will not exceed the Maximum Rate. If for any interest period the applicable interest rate would exceed the Maximum Rate, then (i) such interest rate will not exceed but will be capped at such Maximum Rate and (ii) in any interest period thereafter that the applicable interest rate is less than the Maximum Rate, any Obligation hereunder will bear interest at the Maximum Rate until the earlier of (x) payment to the Bank of an amount equal to the amount which would have accrued but for the limitation set forth in this Section and (y) the Term Loan Maturity Date. Upon the Term Loan Maturity Date or, if no Term Loan is or could be outstanding on the Termination Date, the Termination Date, in consideration for the limitation of the rate of interest otherwise payable hereunder, to the extent permitted by Applicable Law, the Commission shall pay to the Bank a fee in an amount equal to the amount which would have accrued but for the limitation set forth in this Section that has not previously been paid to the Bank in accordance with the immediately preceding sentence.

Section 2.17 Security of Obligations. Notwithstanding any other provision of this Agreement or any other Basic Document to the contrary, all obligations to the Bank under this Agreement, including, without limitation, the Bank Note, are limited obligations of the Commission payable solely from Revenues, as provided in the Issuing and Paying Agent Agreement, and subject to application as set forth in the Master Trust Indenture. The Obligations and the Bank Note are Subordinate Obligations (as defined in the Master Trust Agreement).

Section 2.18 Commercial Paper Operations.

(a) *Issuance Generally.* The Commission shall permit Notes to be issued, and authorize the Issuing and Paying Agent to issue Notes, only in accordance with the terms of the Issuing and Paying Agent Agreement and this Agreement.

(b) *No-Issuance Notices; Final Drawing Notice.* Notes may be issued from time to time prior to the Stated Expiration Date in accordance herewith and with the Issuing and Paying Agent Agreement so long as (i) the Issuing and Paying Agent is not in receipt of a No-Issuance Notice by the Bank that has not been rescinded and (ii) the Issuing and Paying Agent is not in receipt of the Final Drawing Notice. The Bank may deliver a No-Issuance Notice at any time a Default or an Event of Default has occurred and is continuing. The Bank may deliver the Final

Drawing Notice at any time when an Event of Default has occurred and is continuing. A No-Issuance Notice or the Final Drawing Notice is effective when received by the Issuing and Paying Agent; *provided, however*, that a No-Issuance Notice or the Final Drawing Notice received by the Issuing and Paying Agent after 12:00 Noon on any day on which Notes are being issued will be effective on the next succeeding day. A No-Issuance Notice or the Final Drawing Notice may be given by facsimile or electronic mail transmission, confirmed in writing within 24 hours, but the failure to so confirm such No-Issuance Notice or the Final Drawing Notice in writing will not render such No-Issuance Notice or the Final Drawing Notice ineffective. The Bank shall furnish a copy of any No-Issuance Notice or the Final Drawing Notice to the Commission and the Dealers promptly following delivery thereof to the Issuing and Paying Agent, but the failure to furnish any such copy will not render ineffective such No-Issuance Notice or the Final Drawing Notice.

(c) *Reduction in Program Size.* In the event the Commission elects not to issue Notes up to the Maximum Rate, or otherwise limits the interest rate on a rollover of Notes to a rate of interest less than the Maximum Rate and, as a result of these actions the Bank is not reimbursed for a Drawing made to pay maturing Notes, then the Bank may deliver written notice to the Commission with a copy to the Issuing and Paying Agent and the Dealer or Dealers for the Notes instructing the Commission to permanently reduce the Program Size by the principal amount of the Drawing made to purchase such maturing Notes (the “*Reduction Amount*”). In the event the Bank delivers such a notice, the Commission shall cause the Issuing and Paying Agent to promptly deliver to the Bank a reduction certificate in the form of Annex G to the Letter of Credit requesting that the principal component of the Letter of Credit be reduced by the Reduction Amount and that the interest component of the Letter of Credit be proportionately reduced. Notwithstanding any other provision of this Agreement to the contrary, the Commission shall repay the amount of any Advance resulting from an Unpaid Drawing contemplated by this Section 2.18(c) together with accrued interest thereon no later than the date that is thirty (30) days following the date of such Advance.

Section 2.19 Method of Payment; Etc. All payments to be made by the Commission under this Agreement, the Bank Note or the Fee Agreement must be made to the Payment Account not later than 4:00 p.m. on the date when due and must be made in lawful money of the United States of America in freely transferable and immediately available funds. Any payment received after such time shall be deemed to be received on the next succeeding Business Day for purposes of calculating any interest payable in respect thereof.

ARTICLE 3

CONDITIONS PRECEDENT

Section 3.1 Conditions Precedent to Effectiveness. As conditions precedent to the obligation of the Bank to issue the Letter of Credit, each of the following conditions precedent must have been fulfilled to the satisfaction of the Bank and its counsel:

(a) *Opinions.* The Bank has received (i) an opinion of the City Attorney of the City dated the Closing Date and addressed to the Bank (or on which the Bank may rely) to the effect that (A) the Commission is duly organized and validly existing as a commission of the City pursuant to the Charter with full legal power and authority to execute this Agreement, the Fee Agreement and the other Basic Documents to which it is a party and to issue the Notes; (B) this Agreement, the Fee

Agreement and the other Basic Documents to which it is a party are valid and binding agreements of the Commission enforceable against the Commission in accordance with their respective terms, subject to bankruptcy, insolvency, moratorium or other laws affecting creditors' rights, to general principles of equity and to limitations on remedies against public agencies; (C) no authorization, approval, consent or order of any agency or body having jurisdiction over the Commission is required in connection with the issuance of the Notes which has not been obtained; (D) the issuance of the Notes and the execution, delivery and performance of this Agreement, the Fee Agreement and the other Basic Documents to which it is a party do not conflict with any law or material agreements to which the Commission is a party or cause a default under any material documents to which the Commission is a party; and (E) no litigation is pending or, to the best knowledge of the City Attorney, threatened against the Commission threatening its existence or power, its ability to issue the Notes or to enter into and perform its obligations under this Agreement, the Fee Agreement and the other Basic Documents to which it is a party or in which a final adverse decision could materially adversely affect the business, operations or financial condition of the Commission, such opinion (or, in lieu thereof, a reliance letter) to be addressed to the Bank, dated the Closing Date and in form and substance satisfactory to the Bank; and (ii) an opinion of the Bond Counsel dated the Closing Date and addressed to the Bank (or on which the Bank may rely) to the effect that (1) the Commission is duly organized and validly existing as a commission of the City pursuant to the Charter with full legal power and authority to execute this Agreement, the Fee Agreement and the other Basic Documents and to issue the Notes; (2) this Agreement, the Fee Agreement and the other Basic Documents are valid and binding agreements of the Commission enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, moratorium or other laws affecting creditors' rights, to general principles of equity and to limitations on remedies against public agencies and (3) the interest on the Notes is excludable from the gross income of the recipients thereof for Federal income tax purposes and for State of California income tax purposes.

(b) *Documents.* The Bank has received executed copies of this Agreement, the Fee Agreement, the Ordinance, each Dealer Agreement that is to be in effect on the Closing Date, the Resolution, the Issuing and Paying Agent Agreement and the Bank Note, including all amendments and supplements, if any, to the foregoing, certified by the Secretary of the Commission, the Clerk of the Board or any Authorized Representative or the Board, as applicable, as being in full force and effect on and as of the Closing Date.

(c) *Defaults; Representations and Warranties.* On and as of the Closing Date, (i) no Default or Event of Default and no default or event of default under any of the other Basic Documents has occurred and is continuing or would occur upon the issuance of the Letter of Credit or the making of any Advance or Term Loan and (ii) the representations of the Commission set forth in Article Four hereof and in each of the other Basic Documents are true and correct in all material respects on and as of the Closing Date with the same force and effect as if made on and as of such date.

(d) *No Litigation.* No action, suit, investigation or proceeding is pending or, to the knowledge of the Commission, threatened (i) in connection with the Notes or the other Basic Documents or any transactions contemplated thereby or hereby or (ii) against or affecting the Commission, the result of which could have a material adverse effect on the business, operations or condition (financial or otherwise) of the Commission or its ability to perform its obligations

hereunder, under the Fee Agreement or under the Notes or the other Basic Documents to which it is a party.

(e) *No Material Adverse Change.* Since the date of the 2014 Audited Financial Statements, (i) no material adverse change has occurred in the status of the business, operations or condition (financial or otherwise) of the Commission or its ability to perform its obligations hereunder, under the Fee Agreement or under the Notes or the other Basic Documents to which it is a party and (ii) no law, regulation, ruling or other action (or interpretation or administration thereof) of the United States, the State of California or any political subdivision or authority therein or thereof is in effect or has occurred, the effect of which would be to prevent the Bank from fulfilling its obligations hereunder or under the Notes, this Agreement, the Fee Agreement or the other Basic Documents to which it is a party.

(f) *Certificate.* The Bank has received (i) certified copies of all proceedings of the Commission authorizing the execution, delivery and performance of this Agreement, the Fee Agreement, the Bank Note and the other Basic Documents to which it is a party and the transactions contemplated hereby and thereby and (ii) a certificate or certificates of one or more Authorized Representatives dated the Closing Date certifying the accuracy of the statements made in Section 3.1(c), (d) and (e) hereof and further certifying the name, incumbency and signature of each individual authorized to sign this Agreement, the Fee Agreement, the Bank Note, the other Basic Documents to which the Commission is a party and the other documents or certificates to be delivered by the Commission pursuant hereto or thereto, on which certification the Bank may conclusively rely until a revised certificate is similarly delivered, and that the conditions precedent set forth in this Section 3.1 have been satisfied.

(g) *Payment of Fees.* The Bank has received all fees and expenses due and payable to the Bank or its legal counsel pursuant to the Fee Agreement or alternative arrangements satisfactory therefor have been made with the Bank.

(h) *Financial Statements.* The Bank has received the 2014 Audited Financial Statements, internally prepared quarterly budget reports of the Commission for the most recent fiscal quarter end and a copy of the current quarterly budgeting status report, if not previously provided.

(i) *Offering Memorandum.* The Bank has received a copy of the Offering Memorandum.

(j) *CUSIP and Rating for Bank Note.* The Bank has received written confirmation that (a) a CUSIP number has been obtained from Standard and Poor's CUSIP Services for the Bank Note and (b) the Bank Note (and its CUSIP number) has been assigned a long term rating of at least investment grade from any Rating Agency.

(k) *Notes Rating.* The Bank has received written confirmation that the Notes have been rated "P-1" by Moody's and "A-1" by Standard & Poor's and that the underlying long-term credit ratings assigned to the Commission's unenhanced Bonds are at least "AA-" by Standard & Poor's and "Aa3" by Moody's.

(l) *Other Matters.* The Bank has received such other statements, certificates, agreements, documents and information with respect to the Commission and matters contemplated by this Agreement as the Bank may have requested.

In addition, (A) the Bank must have made a reasonable determination that, as of the Closing Date, no Law or other action of the United States of America, the State or any other Governmental Authority or any political subdivision or authority therein or thereof is in effect or has occurred, the effect of which would be to prevent the Commission, the Issuing and Paying Agent, the Dealers or the Bank from fulfilling their respective obligations under this Agreement and the other Basic Documents and (B) no material adverse change in the financial condition of the Commission or in the Laws (or their interpretation or administration) currently in effect and applicable to the parties hereto and the transactions contemplated hereby has occurred as reasonably determined by the Bank. The execution and delivery of this Agreement by the Bank signifies its having made such determination.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to issue the Letter of Credit, the Commission represents and warrants to the Bank as follows:

Section 4.1 **Organization, Powers, Etc.** The Commission (a) is a commission of the City and County of San Francisco organized and existing under the Charter; (b) has the full legal right, power and authority to (i) issue and sell the Notes in accordance with the Issuing and Paying Agent Agreement, (ii) own and operate the Power Enterprise and control its properties and to carry on its business as now conducted and as contemplated to be conducted in connection with the issuance of the Notes, and the execution, delivery and performance of its obligations under this Agreement, the Fee Agreement, the Bank Note and the other Basic Documents to which it is a party, (iii) execute, deliver and perform its obligations under the Bank Note, the Fee Agreement, the other Basic Documents to which it is a party and this Agreement and (iv) provide for the security of the Notes and the Bank Note pursuant to the Charter, the Issuing and Paying Agent Agreement and the Master Trust Indenture; and (c) has complied with all Laws in all matters related to such actions of the Commission as are contemplated by this Agreement, the Bank Note, the Fee Agreement and the other Basic Documents to which it is a party.

Section 4.2 **Authorization, Absence of Conflicts, Etc.** The issuance of the Notes and the execution, delivery and performance by the Commission of this Agreement, the Bank Note, the Fee Agreement and the other Basic Documents to which it is a party (a) have been duly authorized by all necessary action on the part of the Commission, (b) do not and will not conflict with, or result in a violation of, any Laws, including the Charter, or any order, writ, rule or regulation of any court or governmental agency or instrumentality binding upon or applicable to the Commission which violation would result in a material adverse impact on the Commission and (c) do not and will not conflict with, result in a violation of, or constitute a default under, any resolution, agreement or instrument to which the Commission is a party or by which the Commission or any of its property is bound which, in any case, would result in a material adverse impact on the Commission.

Section 4.3 **Binding Obligations; Security for Bank Note.**

(a) This Agreement, the Fee Agreement, the Bank Note and each of the other Basic Documents to which the Commission is a party, when executed by the parties hereto and thereto, will be valid and binding obligations of the Commission (assuming due authorization and execution by the other parties thereto) enforceable against the Commission in accordance with their respective terms, except to the extent, if any, that the enforceability thereof may be limited by (i) any applicable bankruptcy, insolvency, reorganization, moratorium or other similar law of the State or Federal government affecting the enforcement of creditors' rights generally heretofore or hereafter enacted, (ii) the fact that enforcement may also be subject to the exercise of judicial discretion in appropriate cases and (iii) the limitations on legal remedies against public agencies of the State, if any.

(b) The obligations hereunder, under the Fee Agreement and under the Bank Note are obligations secured by a second Lien on, and payable from, the Revenues and a first Lien on, and payable from, the Available Power Enterprise Revenues, equally and ratably with any other Parity Notes and any obligations under any credit or liquidity facility secured by and payable from Available Power Enterprise Revenues supporting such other series of Parity Notes secured by and payable from Available Power Enterprise Revenues.

(c) There is no pledge of or Lien on Revenues that ranks senior to the Obligations, the obligations under the Fee Agreement, the Notes or the Bank Note other than the Bonds issued pursuant to the Master Trust Indenture.

(d) The Notes and the obligations of the Commission under this Agreement, the Fee Agreement and the Bank Note are revenue obligations and are not secured by the taxing power of the Commission and are payable as to both principal and interest from, and are secured by a pledge (which pledge will be effected in the manner and to the extent hereinafter provided) of, the Available Power Enterprise Revenues. The Available Power Enterprise Revenues constitute a trust fund for the security and payment of the interest on and principal of the Notes and the obligations of the Commission under this Agreement, the Fee Agreement, the Bank Note and all Parity Debt secured by the Available Power Enterprise Revenues.

Section 4.4 Governmental Consent or Approval. No consent, approval, permit, authorization or order of, or registration or filing with, any court or government agency, authority or other instrumentality not already obtained, given or made is required on the part of the Commission for the execution, delivery and performance by the Commission of this Agreement, the Bank Note, the Fee Agreement or any other Basic Document to which it is a party. All consents, approvals, permits, authorizations and orders of, and registrations and filings with, any court or governmental or public agency, authority or other instrumentality required for the issuance, sale, execution, delivery and performance of this Agreement, the Fee Agreement, the Bank Note or any other Basic Document to which it is a party, have been or will be obtained prior to the delivery hereof or thereof.

Section 4.5 Absence of Material Litigation. There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, arbitrator or governmental or other board, body or official pending or, to the best knowledge of the Commission, threatened

against or affecting the Commission questioning the validity of the Charter, the Ordinance or the Resolutions, or any proceeding taken or to be taken by the Commission in connection with the execution, delivery and performance by the Commission of this Agreement, the Bank Note, the Fee Agreement or any other Basic Document to which it is a party, or seeking to prohibit, restrain or enjoin the execution, delivery or performance by the Commission of any of the foregoing, or which, if adversely determined, could reasonably be expected to result in any material adverse change in the financial condition, operations or prospects of the Commission, or wherein an unfavorable decision, ruling or finding would in any way materially adversely affect the transactions contemplated by this Agreement or any of the other Basic Documents (any such action or proceeding being herein referred to as “*Material Litigation*”).

Section 4.6 Financial Condition. The audited financial statements of the Commission as at and for the period ended June 30, 2014 (the “*2014 Audited Financial Statements*”), and all other financial statements of the Commission furnished to the Bank were prepared in accordance with GAAP applied on a consistent basis throughout the periods involved and are subject to certification by independent certified public accountants of nationally recognized standing or by independent certified public accountants otherwise acceptable to the Bank. The 2014 Audited Financial Statements were prepared by KPMG LLP. The audited financial statements of the Commission for fiscal year 2015 will be prepared by KPMG LLP or a similar qualified independent auditing firm. The data on which such financial statements and budget reports are based were true and correct. The 2014 Audited Financial Statements and the budget reports present fairly the financial position of the Commission as of the date they purport to represent and the revenues, expenses and changes in fund balances and in financial position for the periods then ended. Since June 30, 2014, no material adverse change has occurred in the business, operations or condition (financial or otherwise) of the Commission.

Section 4.7 Incorporation of Representations and Warranties. The representations and warranties of the Commission set forth in the Basic Documents are true and accurate in all material respects on the Closing Date, as fully as though made on the Closing Date. The Commission makes, as of the Closing Date, each of such representations and warranties to, and for the benefit of, the Bank, as if the same were set forth at length in this Section 4.7 together with all applicable definitions thereto. No amendment, modification or termination of any such representations, warranties or definitions contained in the Basic Documents will be effective to amend, modify or terminate the representations, warranties and definitions incorporated in this Section 4.7 by this reference, without the prior written consent of the Bank.

Section 4.8 Accuracy and Completeness of Information. The Basic Documents and all certificates, financial statements, documents and other written information furnished to the Bank by or on behalf of the Commission on or prior to the Closing Date in connection with the transactions contemplated hereby were, as of their respective dates, complete and correct in all material respects to the extent necessary to give the Bank true and accurate knowledge of the subject matter thereof and did not contain any untrue statement of a material fact. To the best knowledge of the Commission, the Offering Memorandum does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, that no representation is made with respect to information included in the Offering Memorandum concerning (i) the Bank, furnished in writing by the Bank expressly for inclusion therein, or (ii) DTC, furnished in writing by DTC expressly for inclusion therein.

Section 4.9 **No Default.**

(a) No Default or Event of Default under this Agreement has occurred and is continuing that is or would, with the passage of time or the giving of notice, or both, constitute a default by the Commission in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Basic Document to which it is a party.

(b) No “event of default” has occurred and is continuing under any other material mortgage, indenture, contract, agreement or undertaking to which the Commission is a party or which purports to be binding on the Commission or on any of its property.

Section 4.10 **No Proposed Legal Changes.** There is no amendment or, to the knowledge of the Commission, proposed amendment to the Constitution of the State, any State law or the Charter or any administrative interpretation of the Constitution of the State, any State law, or the Charter, or any judicial decision interpreting any of the foregoing, the effect of which could reasonably be expected to have a material adverse effect on the Commission’s obligations under this Agreement, the Fee Agreement, the Bank Note or the any of the other Basic Documents to which the Commission is a party or the ability of the Commission to perform its obligations in connection herewith or therewith.

Section 4.11 **Compliance with Laws, Etc.** The Commission is in compliance with the Investment Policy and all Laws applicable to the Commission, non-compliance with which might have a material adverse effect on the security for the Notes and the obligations under this Agreement, the Fee Agreement and the Bank Note or the validity and enforceability of this Agreement or any other Basic Document to which the Commission is a party. In addition, no benefit plan maintained by the Commission for its employees is subject to the provisions of ERISA, and the Commission is in compliance with all Laws in respect of each such benefit plan.

Section 4.12 **Environmental Matters.** In the ordinary course of its business, the Commission conducts an ongoing review of Environmental Laws on the business, operations and the condition of its property, in the course of which it identifies and evaluates associated liabilities and costs (including, but not limited to, any capital or operating expenditures required for clean-up or closure of properties currently or previously owned or operated, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted thereat and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). On the basis of such review, the Commission does not believe that Environmental Laws are likely to have a material adverse effect on the ability of the Commission to make any payments in respect of the Notes, the Bank Note or any of its obligations hereunder or under the Fee Agreement.

Section 4.13 **Tax Status of Interest on Notes.** The Commission represents to the Bank that it has not taken any action, and knows of no action that any other Person has taken, which would cause interest on the Notes to be includable in the gross income of the recipients thereof for Federal income tax purposes or which would cause interest on the Notes to be includable in the gross income of the recipients thereof for State of California income tax purposes.

Section 4.14 **Issuing and Paying Agent; Dealers.** The Commission represents that U.S. Bank National Association has been duly appointed the Issuing and Paying Agent for the Notes and that [____], [____] and [____], collectively, have each been duly appointed to serve as Dealers for the Notes under its Dealer Agreement and the Resolutions.

Section 4.15 **Regulation U.** The Commission is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System); and no proceeds of the Notes, the Advances or the Term Loans will be used to extend credit to others for the purpose of purchasing or carrying any margin stock.

Section 4.16 **Liens.** The Issuing and Paying Agent Agreement creates a valid Lien on and pledge of the Available Power Enterprise Revenues, subject only to the provisions of the Issuing and Paying Agent Agreement permitting the application thereof for purposes and on the terms and conditions set forth therein, and the moneys and other property described in Article [VI] thereof to provide security for the payment of the principal of and interest on the Notes and the obligations of the Commission under this Agreement, the Fee Agreement and the Bank Note, and no filings, recordings, registrations or other actions are necessary to create or perfect such Lien.

Section 4.17 **Sovereign Immunity.** The Commission is not entitled to immunity from legal proceedings to enforce this Agreement, the Fee Agreement, the Bank Note, the Notes or any other Basic Document to which the Commission is a party (including, without limitation, immunity from service of process or immunity from jurisdiction of any court otherwise having jurisdiction) and is subject to claims and suits for damages in connection with its obligations under this Agreement, the Fee Agreement, the Bank Note, the Notes or any other Basic Document to which the Commission is a party.

Section 4.18 **City Business Days.** Attached to this Agreement as Exhibit C is a complete and accurate list of the days that are legal holidays of the City for 2015, as well as any other day the City is authorized by law to be closed for official business during 2015.

Section 4.19 **Usury.** The terms of this Agreement and the Basic Documents to which the Commission is a party regarding the calculation and payment of interest and fees do not violate any applicable usury laws.

Section 4.20 **Insurance.** As of the Closing Date, the Commission maintains such insurance, including self-insurance, as is required by Section 5.1(k) hereof.

Section 4.21 **ERISA.** The Commission does not maintain or contribute to, and has not maintained or contributed to, any Employee Plan that is subject to Title IV of ERISA.

Section 4.22 **Sanctions Concerns and Anti-Corruption Laws.**

(a) Neither the Commission, nor, to the knowledge of the Commission, any director, officer, employee, agent, affiliate or representative thereof, is an individual or entity that is, or is owned or controlled by any individual or entity that is (i) currently the subject or target of any Sanctions, (ii) included on OFAC's List of Specially Designated Nationals, HMT's Consolidated

List of Financial Sanctions Targets and the Investment Ban List, or any similar list enforced by any other relevant sanctions authority or (iii) located, organized or resident in a Designated Jurisdiction.

(b) The Commission has conducted its business in compliance with the United States Foreign Corrupt Practices Act of 1977 and other similar anti-corruption legislation in other jurisdictions, and have instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

Section 4.23 **Swap Contracts.** The Commission has not entered into any Swap Agreement secured by Revenues (a) wherein any termination payment thereunder is senior to or on a parity with the payment of the Notes or the Obligations or (b) which requires the Commission to post cash collateral to secure its obligations thereunder.

ARTICLE 5

COVENANTS

Section 5.1 **Affirmative Covenants.** So long as the Letter of Credit has not expired or terminated or any Obligations remain outstanding under this Agreement, the Commission shall perform and observe the covenants set forth below, unless the Bank otherwise consents in writing:

(a) *Accounting and Reports.* The Commission shall maintain a standard system of accounting in accordance with GAAP consistently applied and furnish to the Bank:

(i) as soon as practicable and, in any event, within one hundred eighty (180) days after the end of each Fiscal Year of the Commission, a balance sheet of the Commission as at the end of such Fiscal Year and statements of income, changes in fund balances and cash flows for the Fiscal Year then ended, all in reasonable detail and prepared in accordance with GAAP consistently applied, accompanied by (A) a report and opinion of the Commission's independent accountants (which will be of nationally recognized standing or an independent certified public accountant otherwise acceptable to the Bank), which report and opinion will have been prepared in accordance with generally accepted auditing standards and (B) a compliance certificate, substantially in the form of Exhibit B hereto, signed by an Authorized Representative stating that no Event of Default or Default has occurred or if any Event of Default or Default has occurred, specifying the nature of such Event of Default or Default, the period of its existence, the nature and status thereof and any remedial steps taken or proposed to correct such Event of Default or Default;

(ii) as soon as practicable but, in any event, within ten (10) days after the issuance thereof, copies of any prospectus, official statement, offering circular, placement memorandum or similar document, and any supplements thereto and updates and amendments thereof (including any filings made pursuant to Rule 15c2-12 under the Securities Act of 1933, as amended), that the Commission makes available in connection with the offering for sale of any bonds or notes secured by Revenues of which it is the issuer and copies of any other financial reports or other written information distributed generally to holders of bonds or notes issued by the Commission;

(iii) within ten (10) days after the publication thereof, a copy of the Commission's Annual Budget for the next Fiscal Year and such additional period as may be covered by such Annual Budget, which budget shall include all obligations due hereunder, under the Fee Agreement and under the Bank Note for the next Fiscal Year and such additional period as may be covered by such Annual Budget;

(iv) promptly upon learning of any change in the legal holidays of the City or the day or days that the City is authorized by law to be closed for official business, as initially listed on Exhibit C attached hereto, written notice of such change(s), in the form of an updated complete list, which will replace Exhibit C attached hereto; and

(v) with reasonable promptness, such other data regarding the financial position or business of the Commission or its property as the Bank may reasonably request from time to time.

As and to the extent that any financial statement, audit report or other filing described in this Section 5.1(a) has been filed in accordance with the terms thereof with any nationally recognized municipal securities information repository and with the Municipal Securities Rulemaking Board, or posted to the Commission's website, as applicable, and the Commission has provided written notice thereof to the Bank, the requirements of Section 5.1(a) hereof with respect thereto will be deemed satisfied.

(b) *Access to Records.* At any reasonable time and from time to time, during normal business hours and, so long as no Event of Default has occurred and is continuing, on at least five (5) Business Days' notice, the Commission shall permit the Bank or any of its agents or representatives to visit and inspect any of the properties of the Commission and the other assets of the Commission, to examine the books of account of the Commission (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances and accounts of the Commission with, and to be advised as to the same by, its officers, all at such reasonable times and intervals as the Bank may reasonably request.

(c) *Compliance with Documents and Other Debt Documents; Operation and Maintenance of Power Enterprise.*

(i) The Commission shall perform and comply with each covenant set forth in the Basic Documents, the Master Trust Indenture and in any other authorizing document that is entered into by the Commission and created subsequent to the Closing Date with respect to any Parity Debt including, without limitation, each line of credit, letter of credit, bond insurance policy, surety bond or other form of credit or liquidity enhancement the Commission may provide in conjunction with the issuance of any Bonds or Parity Debt (the foregoing documents (exclusive of the Basic Documents) being referred to herein as "*Other Debt Documents*"). By the terms of this Agreement, the Bank is a third party beneficiary of the covenants set forth in each of the Basic Documents, including each amendment and supplement thereto, and in each Other Debt Document, and each such covenant, together with the related definitions of terms contained therein, is incorporated by reference in this Section 5.1(c) with the same effect as if it were set forth herein in its entirety. Except as otherwise set forth in paragraph (ii) below and in Section 5.2(a) hereof, the Commission shall not amend, supplement or otherwise modify (or permit any of the foregoing), or

request or agree to any consent or waiver under, or effect or permit the cancellation, acceleration or termination of, or release or permit the release of any collateral held under, any of the Basic Documents or any Other Debt Document in any manner without the prior written consent of the Bank, and the Commission shall take, or cause to be taken, all such actions as may be reasonably requested by the Bank to strictly enforce the obligations of the other parties to any of the Basic Documents and any Other Debt Documents, as well as each of the covenants set forth therein. The Commission shall give prior written notice to the Bank of any action referred to in this subparagraph (i).

(ii) The Commission covenants that it will maintain and preserve the Power Enterprise in good repair and working order at all times from the Revenues available for such purposes, in conformity with standards customarily followed for municipal water and power systems of like size and character. The Commission will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to the properties of the Power Enterprise, so that at all times business carried on in connection with the Power Enterprise shall and can be properly and advantageously conducted in an efficient manner and at reasonable cost, and will operate the Power Enterprise in an efficient and economical manner and shall not commit or allow any waste with respect to the Power Enterprise.

(d) *Defaults.* The Commission shall notify the Bank of any Default or Event of Default of which the Commission has knowledge, as soon as possible and, in any event, within three (3) Business Days of acquiring knowledge thereof, setting forth the details of such Default or Event of Default and the action which the Commission has taken and proposes to take with respect thereto.

(e) *Compliance with Laws.* The Commission shall comply in all material respects with all Laws binding upon or applicable to the Commission (including Environmental Laws) and material to this Agreement, the Fee Agreement, the Bank Note or any other Basic Documents.

(f) *Use of Proceeds of the Notes.* The Commission shall use the proceeds derived from the sale of the Notes only for the purposes set forth in the Basic Documents and for such other purpose or purposes as may be approved by the Bank. In addition, the Commission shall not use, nor permit the use of, the proceeds of the Notes or any Drawing to be applied in violation of Regulation U issued by the Board of Governors of the Federal Reserve System.

(g) *Litigation Notice.* The Commission shall promptly give notice to the Bank of any action, suit or proceeding actually known to it at law or in equity or by or before any court, governmental instrumentality or other agency which, if adversely determined, would materially impair the ability of the Commission to perform its obligations under the Notes, the Bank Note, this Agreement, the Fee Agreement or any other Basic Document.

(h) *Bank Agreements.* In the event that Commission shall enter into or otherwise consent to any amendment, supplement or other modification of any Bank Agreement after the Closing Date which Bank Agreement contains additional or more restrictive covenants or additional or more restrictive events of default ("*Improved Provisions*," which for the avoidance of doubt does not include pricing, termination fees and provisions related to interest rates), then the Commission shall provide the Bank with a copy of such Bank Agreement and the Improved Provisions shall automatically be deemed incorporated into this Agreement and the Bank shall have the benefit of the Improved Provisions until such time as the Bank Agreement containing such

Improved Provisions terminates. The Commission shall promptly cooperate with the Bank to enter into an amendment of this Agreement to include such Improved Provisions.

(i) *Further Assurances.* The Commission shall execute, acknowledge where appropriate and deliver, and cause to be executed, acknowledged where appropriate and delivered, from time to time, promptly at the request of the Bank, all such instruments and documents as are usual and customary or advisable to carry out the intent and purpose of this Agreement, the Bank Note and the other Basic Documents.

(j) *Notices.* The Commission shall promptly furnish, or cause to be furnished, to the Bank (i) notice of the occurrence of any “event of default” under the Issuing and Paying Agent Agreement, any other Basic Document to which it is a party or any other document pursuant to which Power Enterprise Debt is issued, incurred, enhanced or purchased, (ii) notice of the failure by any Dealer or the Issuing and the Paying Agent to perform any of their respective obligations under the applicable Dealer Agreement or the Issuing and Paying Agent Agreement, as applicable, (iii) copies of any communications received from any taxing authority, securities regulatory authority or Rating Agency with respect to the Notes, the transactions contemplated hereby or any other Power Enterprise Debt which are not restricted or prohibited from being shared under the law or the direction of a court of competent jurisdiction or other Governmental Authority or, with respect to Rating Agency reports, confidential draft Rating Agency reports, (iv) notice of any proposed substitution of this Agreement, (v) notice of any proposed amendment to the Issuing and Paying Agent Agreement or the Resolutions or any other Basic Document and copies of all such amendments promptly following the execution thereof and (vi) notice of the passage of any state or local Law not of general applicability to all Persons of which the Commission has knowledge, which could reasonably be expected to have a material adverse effect on the Commission’s ability to perform its obligations under this Agreement or the other Basic Documents or to result in a material adverse effect on the enforceability or validity of this Agreement or any of the other Basic Documents.

(k) *Maintenance of Insurance.* The Commission shall maintain, or cause to be maintained, at all times, insurance on and with respect to its properties with responsible and reputable insurance companies; *provided, however,* that the Commission may maintain self-insurance general liability on its properties not covered by the public entity property insurance program policy, for worker’s compensation and vehicle liability and, with the consent of the Bank, such other self-insurance as it deems prudent. Such insurance must include casualty, liability and workers’ compensation and be in amounts and with deductibles and exclusions customary and reasonable for governmental entities of similar size and with similar operations as the Commission. The Commission shall, upon request of the Bank, furnish evidence of such insurance to the Bank. The Commission shall also procure and maintain at all times adequate fidelity insurance or bonds on all officers and employees handling or responsible for any Revenues or funds of the Power Enterprise, such insurance or bond to be in an aggregate amount at least equal to the maximum amount of such Revenues or funds at any one time in the custody of all such officers and employees or in the amount of one million dollars (\$1,000,000), whichever is less. The insurance described above may be provided as part of any comprehensive fidelity and other insurance and not separately for the Power Enterprise.

(l) *Alternate Facility.*

(i) The Commission shall use commercially reasonable efforts to obtain an Alternate Facility to replace the Letter of Credit (or otherwise refinance the Notes) if (A) the Bank decides not to extend the Stated Expiration Date pursuant to Section 2.12 hereof, (B) an Event of Default has occurred and is continuing, (C) the Commission terminates the Letter of Credit pursuant to Section 2.7 hereof or (D) the Bank declares all amounts due hereunder, under the Fee Agreement and under the Bank Note immediately become due and payable. The Commission shall not cause an Alternate Facility to become effective with respect to less than all the Notes without the prior written consent of the Bank.

(ii) The Commission agrees that any termination of this Agreement as a result of the provision of any Alternate Facility will require, as a condition thereto, that the Commission provide funds on the date of such termination, which funds will be sufficient to pay all amounts due to the Bank hereunder and under the Fee Agreement including, but not limited to, the amounts due with respect to the Bank Note together, in each case, with accrued but unpaid interest thereon. On the date of such termination, the Commission shall pay to the Bank an amount equal to the outstanding principal amount, together with any accrued by unpaid interest thereon, of any and all other obligations due and owing hereunder and under the Fee Agreement.

(m) *Preservation of Security.* The Commission shall take any and all actions necessary or reasonably requested by the Bank to maintain the security pledged in favor of this Agreement and the Bank Note as described in Section 5.1(n) hereof.

(n) *Pledge of Available Power Enterprise Revenues.* The Available Power Enterprise Revenues are hereby pledged to the payment of the Notes and the obligations of the Commission under this Agreement, the Fee Agreement and the Bank Note without priority or distinction of one over the other. The pledge of Available Power Enterprise Revenues herein made is irrevocable until all of the Notes and the obligations of the Commission under this Agreement, the Fee Agreement, the Bank Note and any Parity Debt secured by Available Power Enterprise Revenues have been paid and retired and any related obligations of the Commission under this Agreement have been satisfied. The Commission will not issue Debt secured by or payable from the Revenues on a basis that is senior to the obligations owed to the Bank hereunder, under the Fee Agreement under the Bank Note other than Bonds issued pursuant to the Master Trust Indenture.

(o) *Rates.* The Commission shall fix, establish, maintain and collect rates and charges for electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Power Enterprise, which shall be fair and nondiscriminatory and adequate to provide the Commission with Revenues in each Fiscal Year sufficient:

(i) To pay, to the extent not paid from other available moneys, (A) the Operation and Maintenance Expenses during such Fiscal Year, (B) Annual Debt Service on the Bonds due and payable in such Fiscal Year, (C) the amounts, if any, required to be deposited into the Reserve Fund established pursuant to the Master Trust Indenture during such Fiscal Year and (D) any and all other amounts the Commission is obligated to pay or set aside from the Revenues by law or contract in such Fiscal Year, including, without limitation and without duplication, amounts payable to the Bank under this Agreement, the Fee Agreement and the Bank Note and the principal of any interest on all Notes outstanding and/or expected to be outstanding during such Fiscal Year;

(ii) To maintain a Bond Coverage Ratio of at least 1.0 to 1.0; and

(iii) Together with Available Funds, to maintain a Bond Coverage Ratio of at least 1.25 to 1.00;

provided, however, the failure of the Commission to maintain the Bond Coverage Ratios in any Fiscal Year shall not constitute a default in the observance of the covenants of this subsection if:

(1) within 60 days after the Commission first determines that the Bond Coverage Ratio was not met or 60 days after the Commission's receipt of audited financial statements showing that the Bond Coverage Ratio was not met (whichever is earlier), the Commission engages a Consulting Engineer to deliver a report to the Commission within 60 days after such engagement which includes recommendations as to how the Commission can increase Revenues and/or reduce Operation and Maintenance Expenses so as to satisfy the Bond Coverage Ratios; and

(2) (A) within 120 days after receipt of the Consulting Engineer's report the Commission implements the recommendations set forth in such report; or (B) the report states that the Power Enterprise cannot generate Revenues and/or reduce Operation and Maintenance Expenses sufficient to enable the Commission to maintain the Bond Coverage Ratios while satisfying the other covenants set forth in the Master Trust Indenture, and the Commission increases its Revenues and/or reduces its Operation and Maintenance Expenses to the extent otherwise recommended in such report; or (C) the Commission is prevented from taking any such action by order of any court of competent jurisdiction.

Notwithstanding the foregoing, failure for two (2) consecutive Fiscal Years to maintain the Bond Coverage Ratios shall in all events constitute an Event of Default.

(p) *Budget.* The Commission shall include in each annual budget of the Commission all amounts reasonably anticipated to be necessary to pay all obligations due to the Bank hereunder, under the Fee Agreement and under the Bank Note. If the amounts so budgeted are not adequate for the payment of the obligations due hereunder, under the Fee Agreement and under the Bank Note, the Commission shall take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be paid to the Bank during the course of the Fiscal Year to which such annual budget applies.

(q) *Payment of Taxes, Etc.* The Commission shall pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Commission on account of the Power Enterprise or any portion thereof and which, if unpaid, might impair the security of the Notes, this Agreement, the obligations of the Commission under the Fee Agreement and the Bank Note when the same become due, but nothing herein contained will require the Commission to pay any such tax, assessment or charge so long as it in good faith contests the validity thereof. The Commission shall duly observe and comply with all valid material requirements of any Governmental Authority relative to the Power Enterprise or any part thereof.

(r) *Notice of Rating Change.* The Commission shall use its best efforts to notify the Bank as soon as practicable of any suspension, reduction or withdrawal in the senior long-term rating of any Power Enterprise Debt.

(s) *Issuing and Paying Agent and Dealer.*

(i) The Commission shall at all times maintain a Dealer with respect to the Notes. The Commission shall use its best efforts at all times to enforce the Dealer Agreement. The Commission agrees to cause the Dealer to use its best efforts to sell the Notes up to the maximum rate applicable to the Notes in order to repay maturing Notes. Each Dealer Agreement shall provide that the related Dealer may not resign until the earlier of (i) the appointment of a Dealer which is acceptable to the Bank and such Dealer's acceptance of such appointment and (ii) the date which is at least sixty (60) days following the receipt by the Commission, the Issuing and Paying Agent and the Bank of prior written notice of such resignation.

(ii) On and after the Closing Date, the Commission shall at all times maintain an Issuing and Paying Agent pursuant to the terms of the Issuing and Paying Agent. Any successor Issuing and Paying Agent (or any parent or affiliate of such Issuing and Paying Agent) shall have capital of not less than \$500,000,000, and underlying ratings from Moody's, S&P and Fitch of at least "A3" (or its equivalent), "A-" (or its equivalent) and "A-" (or its equivalent), respectively (unless, in each instance, the Bank in its discretion provides in writing an exception for a particular Issuing and Paying Agent under specified circumstances).

(iii) In no event shall the Commission permit any Dealer other than a Qualified Dealer to act as dealer for the Notes. In the event that any material adverse change occurs in the status of the financial condition of any Dealer for the Notes or its ability to perform its obligations under the Dealer Agreement to which it is a party, the Commission shall promptly disqualify and, if it desires, replace such Dealer and appoint another Qualified Dealer with respect to the Notes. If any Advance or Term Loan remains outstanding for a period of thirty (30) consecutive calendar days or any Dealer fails to perform its duties under the Dealer Agreement to which it is a party, the Commission shall, at the written direction of the Bank, cause the related Dealer (that has been unable to sell rollover Notes or fails to perform its duties) to be replaced with a Qualified Dealer within thirty (30) calendar days after receipt of such written direction. Any successor Dealer (or any parent or affiliate of such Dealer) shall have capital of not less than \$500,000,000, and underlying ratings from Moody's, S&P and Fitch of at least "A3" (or its equivalent), "A-" (or its equivalent) and "A-" (or its equivalent), respectively (unless, in each instance, the Bank in its discretion provides in writing an exception for a particular Dealer under specified circumstances).

(t) *Maintenance of Ratings on Notes.* The Commission shall at all times (i) maintain at least one short-term rating on the Notes by any of Fitch, Moody's and S&P, (ii) require at least two of Moody's, Fitch and S&P to maintain a long-term unenhanced debt rating on Senior Debt and (iii) cause at least one of Moody's, Fitch and S&P to maintain a long-term rating on the Bank Note.

Section 5.2 Negative Covenants. So long as the Letter of Credit has not expired or terminated or any Obligations remain outstanding under this Agreement, the Fee Agreement or the Bank Note the Commission shall not, unless the Bank otherwise consents in writing:

(a) *Amendments.* Subject to Section 5.1(c) hereof, directly or indirectly amend, supplement or terminate any of the Basic Documents or the Master Trust Indenture, except that (i) the Commission may amend or modify, or permit to be amended or modified, any of the Basic Documents (as and to the extent the Commission's participation is required for such purpose) in a manner (A) not relating to the duties, obligations or rights of the Bank under this Agreement and (B) not having a material adverse effect on (x) the ability of the Commission to pay when due the principal of or interest on the Notes and the obligations of the Commission under this Agreement, the Fee Agreement and the Bank Note or (y) the security, rights or remedies of the Bank hereunder, under the Bank Note or under any other Basic Document; and (ii) the Commission may amend the Offering Memorandum to update information relating to any entity described therein other than the Bank. The Commission agrees to deliver to the Bank copies of all such amendments, modification, supplements or other changes at least ten (10) Business Days prior to the effective date of any such amendment, modification, supplement or other change. The Bank shall, within five (5) Business Days, inform the Commission in writing if, in its reasonable discretion, such amendment, modification, supplement or other change requires the prior written consent of the Bank in accordance with this Section 5.2(a). Notwithstanding the foregoing, the Commission, without the Bank's prior written consent, may perform ministerial duties, make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, as the Commission may deem necessary or desirable, in any case which do not materially adversely affect the security, rights or remedies of the Bank hereunder, under the Bank Note, or under any other Basic Document and, solely in connection with the issuance of additional Debt, issue Debt in strict compliance with the terms of the governing documents related thereto.

(b) *Merger, Disposition of Assets.* Consolidate or merge with or into any Person or sell, lease or otherwise transfer all or substantially all of its assets to any Person.

(c) *Preservation of Corporate Existence, Etc.* Take any action to terminate its existence as a body politic and corporate and a political subdivision of the State or its rights and privileges as such entity within the State.

(d) *Total Outstanding.* Permit the aggregate principal amount of all Notes and the Bank Note outstanding at any time to exceed \$97,989,042 (except as provided in Section 5.2(f) hereof); or permit the aggregate principal amount of and interest on all Notes outstanding at any time to exceed the Stated Amount at such time.

(e) *Exempt Status.* Take any action, omit to take any action or cause or permit another Person to take any action or omit to take any action, which, if taken or omitted, would adversely affect the excludability of interest on the Notes (other than those issued as taxable Notes) from the gross income of the holders thereof for purposes of Federal income taxation.

(f) *Issue Power Enterprise Debt.*

(1) Issue any Senior Debt or Parity Debt unless:

(i) no “event of default” shall have occurred and be continuing under the agreement or instrument pursuant to which any outstanding Senior Debt or Parity Debt was issued or incurred and no event shall have occurred which, but for the passage of time or the giving of notice, would constitute an “event of default” under any such agreement or instrument;

(ii) such Senior Debt or Parity Debt does not exceed at any time any limitation set forth in the Constitution or other laws of the State, the Charter, the Resolution, the Ordinance, the Master Trust Indenture or any supplement thereto, any other resolutions adopted by the Commission, Ordinances adopted by the Board or the Issuing and Paying Agent Agreement;

(iii) in the case of Senior Debt, either:

(A) a Certificate of the Commission stating that, in each of the first three (3) full Fiscal Years after the sale of such Senior Debt, projected Net Revenues (1) *plus* Available Funds, are at least 1.25 times Annual Debt Service on the outstanding Senior Debt, after giving effect to the issuance of such Senior Debt, and (2) are at least 1.0 times Annual Debt Service on the outstanding Senior Debt, plus required deposits into any Reserve Fund established pursuant to the Master Trust Indenture, after giving effect to the issuance of such Senior Debt; or

(B) a Certificate of the Commission stating that Net Revenues from any twelve consecutive months of the prior 24 months: (1) *plus* Available Funds, are at least 1.25 times Annual Debt Service on the outstanding Senior Debt, after giving effect to the issuance of such Senior Debt, and (2) are at least 1.0 times Annual Debt Service on the outstanding Senior Debt, plus required deposits into any Reserve Fund established pursuant to the Master Trust Indenture after giving effect to the issuance of such Senior Debt; *provided, however*, for purposes of this paragraph (B) the following adjustments may be made to Net Revenues for such period, if so stated in the Certificate of the Commission; (I) an allowance for additional Revenues anticipated from any additions, extensions and improvements to the Power Enterprise to be acquired or constructed from proceeds of such or a prior Senior Debt and for any changes in Operation and Maintenance Expenses resulting therefrom, that are not reflected in Net Revenues for such Fiscal Year, but only if such additional Revenues and changes in Operation and Maintenance Expenses represent a full twelve months’ change in Net Revenues attributable to such additions, extensions and improvements; and (II) An allowance for additional Revenues attributable to any increase in the rates and charges imposed by the Commission that (x) was in effect prior to the issuance of such Senior Debt but which, during all or part of such Fiscal Year, was not in effect, or (y) was adopted by the Commission prior to the issuance of such Senior Debt and will be in effect within 90 days after such issuance, but in either case only if such additional

Revenues represent a full twelve months' change in Net Revenues attributable to such increase in rates and charges;

(iv) in the case of Parity Debt, either:

(A) a Certificate of the Commission stating that, in each of the first three (3) full Fiscal Years after the sale of such Parity Debt, Revenues will be sufficient to pay (I) the Operation and Maintenance Expenses during each such Fiscal Year, (II) Annual Debt Service on the Bonds due and payable in each such Fiscal Year, (III) the amounts, if any, required to be deposited into the Reserve Fund established pursuant to the Master Trust Indenture during each such Fiscal Year and (IV) any and all other amounts the Commission is obligated to pay or set aside from the Revenues by law or contract in such Fiscal Year, including, without limitation and without duplication, amounts payable to the Bank under this Agreement, the Fee Agreement and the Bank Note and the principal of and interest on all Notes expected to be outstanding during any such Fiscal Year, including the Parity Debt to be issued; or

(B) a Certificate of the Commission stating that Net Revenues from any twelve consecutive months of the prior 24 months were sufficient to pay (I) the Operation and Maintenance Expenses during such twelve consecutive month period, (II) Annual Debt Service on the Bonds due and payable in such twelve consecutive month period, (III) the amounts, if any, required to be deposited into the Reserve Fund established pursuant to the Master Trust Indenture during such twelve consecutive month period and (IV) any and all other amounts the Commission was obligated to pay or set aside from the Revenues by law or contract in such twelve consecutive month period, including, without limitation and without duplication, amounts payable to the Bank under this Agreement, the Fee Agreement and the Bank Note during such twelve consecutive month period, the principal of and interest on all Notes outstanding during such twelve consecutive month period and the principal of and interest on the Parity Debt to be issued (assuming such Parity Debt had been outstanding during such twelve consecutive month period);

(v) the issuance of Parity Debt will not result in the creation of a Lien on the Available Power Enterprise Revenues that is senior to the Lien securing the Notes or the obligations under the Agreement, the Fee Letter and the Bank Note; and

(vi) any such Parity Debt is issued in compliance with Section [5.07] of the Issuing and Paying Agent Agreement;

(vii) in connection with the issuance of any additional Senior Debt, the Commission provides certificates demonstrating compliance with the requirements

set forth in Section 3.4 or Section 3.5, as the case may be, of the Master Trust Indenture;

(viii) in connection with the issuance of any additional Parity Debt, the Commission provides a certificate demonstrating compliance with the requirements set forth in Section [5.07] of the Issuing and Paying Agent Agreement; and

(ix) no Default or Event of Default has occurred and is continuing hereunder as a result thereof.

(2) The Commission will not issue Debt secured by or payable from the Revenues on a basis that is senior to the obligations owed to the Bank hereunder, under the Fee Agreement and the Bank Note other than the Bonds.

(g) *Use of Bank's Name.* Permit the use of the Bank's name in any official statement or other offering document unless the Bank has approved in writing the description of the Bank contained in such document.

(h) *Arbitrage Bonds; Tax-Exempt Status of Notes.* Invest the proceeds of the Notes in any way that would violate the Code or cause the Notes to be deemed "arbitrage bonds" or take any action or omit to take any action if such action or omission would adversely affect the exclusion of interest on the Notes from gross income of the holders thereof for Federal income tax purposes.

(i) *Swap Agreements.* Without the prior written consent of the Bank, enter into any Swap Agreement secured by Revenues (a) wherein any termination payments thereunder are senior to or on parity with the payment of the Notes or the Obligations or (b) which requires the Commission to post cash collateral to secure its obligations thereunder.

(j) *Liens.* Create or suffer to exist or permit any Lien on the Revenues other than the Liens created or permitted by the Master Trust Indenture, the Issuing and Paying Agent Agreement, this Agreement and Liens that are junior and subordinate to the Lien created by the Issuing and Paying Agent Agreement and this Agreement under terms and conditions satisfactory to the Bank.

(k) *Sovereign Immunity.* Assert the defense of any future right of sovereign immunity in a legal proceeding to enforce or collect upon the obligations of the Commission under this Agreement, the Fee Agreement or the Bank Note or the transactions contemplated hereby and thereby.

(l) *Power Enterprise.* Construct, operate or maintain, and shall not within the scope of its powers permit any other public or private corporation, political subdivision, district or agency or any Person whatsoever to construct, operate or maintain, within the City or any part thereof, any system or utility competitive with the Power Enterprise. The Commission shall have in effect, or cause to have in effect, at all times an ordinance or resolution requiring all customers of the Power Enterprise to pay the fees, rates and charges applicable to the services and facilities furnished by the Power Enterprise. The Commission shall not provide any service of the Power Enterprise free of charge to any Person, except (i) for free use by the City and its agencies, (ii) to the extent that any such free use is required by the terms of any existing contract or agreement and (iii) for incidental insignificant free use so long as such free use does not prevent the Commission from

satisfying the other covenants of this Agreement, including, without limitation, Section 5.1(o) hereof.

(m) *Preservation of Existence, Etc.* Take any action pursuant to the Charter to accomplish a merger of the Power Enterprise with any other entity or enterprise, unless and until the Commission has provided a method for segregating the Revenues from the revenues of said other entity or enterprise in a manner that will, or shall otherwise, preserve the Lien on the Available Power Enterprise Revenues for the payment of the Notes and the Obligations provided in Section 4.3 hereof and has obtained an opinion of counsel from a firm nationally recognized in the practice of tax-exempt financing that such merger will not, in and of itself, (i) affect the exclusion from gross income of the interest on the Notes or (ii) cause the Lien created by this Agreement to be no longer valid as required by Section 5.1(n) hereof. If the Commission does effect such a merger, the Commission shall provide written notice thereof to the Bank and shall deliver a copy of the aforementioned opinion to the Bank.

(n) *Use of Proceeds.* Use the proceeds of any credit extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose, in each case in violation of, or for a purpose which violates, or would be inconsistent with, Regulation T, U or X of the Board of Governors of the Federal Reserve System. The Commission shall not use the proceeds of the Notes or the Bank Note for any purpose other than as provided for in the Resolutions and not in contravention of applicable Law.

(o) *Notes.* Permit any Note issued pursuant to the Resolutions or the Issuing and Paying Agent Agreement to mature more than two hundred seventy (270) days after the date of issuance or after the Stated Expiration Date.

ARTICLE 6

DEFAULTS

Section 6.1 **Events of Default and Remedies.** If any of the following events occurs, each such event will be an “*Event of Default*”:

(a) the Commission fails to pay, or cause to be paid, as and when due, (i) any Reimbursement Obligation or (ii) any Obligation (other than a Reimbursement Obligation) hereunder or under the Fee Agreement and, in such case, such failure continues for five (5) Business Days;

(b) any representation or warranty made by or on behalf of the Commission in this Agreement or in any other Basic Document or in any certificate or statement delivered hereunder or thereunder is incorrect or untrue in any material respect when made or deemed to have been made or delivered;

(c) the Commission defaults in the due performance or observance of any of the covenants set forth in Section 2.15, 5.1(c), 5.1(d), 5.1(g), 5.1(m)(ii), 5.1(n), 5.1(s)(ii), 5.1(s)(iii) or 5.2 hereof;

(d) the Commission defaults in the due performance or observance of any other term, covenant or agreement contained in this Agreement or any other Basic Document and such default remains unremedied for a period of thirty (30) days after the occurrence thereof;

(e) the Commission or the City and County of San Francisco, directly or indirectly, (i) has entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) becomes insolvent or does not pay, or is unable to pay, or admits in writing its inability to pay, its debts generally as they become due, (iii) makes an assignment for the benefit of creditors, (iv) applies for, seeks, consents to, or acquiesces in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institutes any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fails to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) takes any corporate action in furtherance of any matter described in clauses (i) through (v) above or (vii) fails to contest in good faith any appointment or proceeding described in Section 6.1(f) of this Agreement;

(f) a custodian, receiver, trustee, examiner, liquidator or similar official is appointed for the Commission or the City and County of San Francisco or any substantial part of its Property, or a proceeding described in Section 6.1(e)(v) is instituted against the Commission or the City and County of San Francisco and such proceeding continues undischarged, undismissed and unstayed for a period of thirty (30) days;

(g) a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any Debt of the Commission by the Commission or any Governmental Authority with appropriate jurisdiction;

(h) any material provision of this Agreement, the Charter or any other Basic Document at any time for any reason ceases to be valid and binding on the Commission as a result of any legislative or administrative action by a Governmental Authority with competent jurisdiction or is declared in a final non-appealable judgment by any court with competent jurisdiction to be null and void, invalid or unenforceable, or the validity or enforceability thereof is publicly contested by the Commission, or the Commission publicly contests the validity or enforceability of any obligation to pay Power Enterprise Debt, including, without limitation, the Master Trust Indenture, or any Authorized Representative publicly repudiates or otherwise denies in writing that it has any further liability or obligation under or with respect to any provision of this Agreement, the Charter, any other Basic Document or any operative document related to Power Enterprise Debt, including, without limitation, the Master Trust Indenture;

(i) dissolution or termination of the existence of the Commission;

(j) the Commission (i) defaults on the payment of the principal of or interest on any Power Enterprise Debt beyond the period of grace, if any, provided in the instrument or agreement under which such Power Enterprise Debt was created or incurred or (ii) defaults in the observance or performance of any agreement or condition relating to any Power Enterprise Debt, including, without limitation, any Bank Agreement, or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event occurs or condition exists, the effect of which default, event of default or similar event or condition is to permit (determined without regard to whether any notice is required) any such Power Enterprise Debt to become immediately due and payable in full as the result of the acceleration, mandatory redemption or mandatory tender of such Power Enterprise Debt;

(k) the Commission (i) defaults on the payment of the principal of or interest on any Debt (other than Power Enterprise Debt) aggregating in excess of \$10,000,000 beyond the period of grace, if any, provided in the instrument or agreement under which such Debt (other than Power Enterprise Debt) was created or incurred or (ii) defaults in the observance or performance of any agreement or condition relating to any Debt (other than Power Enterprise Debt) aggregating in excess of \$10,000,000, or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event occurs or condition exists, the effect of which default, event of default or similar event or condition is to permit (determined without regard to whether any notice is required) any such Debt to become immediately due and payable in full as the result of the acceleration, mandatory redemption or mandatory tender of such Debt (other than Power Enterprise Debt);

(l) any final, nonappealable judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, in an aggregate amount not less than \$10,000,000 are entered or filed against the Commission or against any of its Property and remain unpaid, unvacated, unbonded and unstayed for a period of sixty (60) days;

(m) (i) the Commission shall default in the due performance or observance of any material term, covenant or agreement contained in any other Basic Document and the same shall not have been cured within any applicable cure period or (ii) any “event of default” under any other Basic Document (as defined respectively therein) has occurred;

(n) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service is rendered to the effect that interest on the Notes is includable in the gross income of the holder(s) or owner(s) of such Notes and either (i) the Commission, after it has been notified by the Internal Revenue Service, does not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Commission challenges such ruling, assessment, notice or advice and a court of law makes a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered;

(o) any of Fitch, Moody’s and S&P (i) downgrades its long-term unenhanced rating of any Senior Debt of the Commission to below “A-” (or its equivalent), “A3” (or its equivalent), or “A-” (or its equivalent), respectively, and such rating remains below “A-”

(or its equivalent), “A3” (or its equivalent), or “A-” (or its equivalent) for one hundred twenty (120) days, or (ii) suspends or withdraws its rating of the same; or

(p) the passage of any Law has occurred which could reasonably be expected to have a material adverse effect on the Commission’s ability to perform its obligations under this Agreement or the other Basic Documents or to result in a material adverse effect on the enforceability or validity of this Agreement or any of the other Basic Documents.

Section 6.2 Remedies. Upon the occurrence of any Event of Default the Bank may exercise any one or more of the following rights and remedies in addition to any other remedies herein or by law provided:

(a) declare all Obligations to be immediately due and payable, whereupon the same are immediately due and payable without any further notice of any kind, which notice is waived by the Commission; *provided, however*, that in the case of an Event of Default described in Section 6.1(e), (f) or (g) hereof, such acceleration will automatically occur (unless such automatic acceleration is waived by the Bank in writing); or

(b) issue a No-Issuance Notice (the effect of which will be as provided in Section 2.18 of this Agreement), reduce the Stated Amount of the Letter of Credit to the amount of the then outstanding Notes supported by the Letter of Credit plus a corresponding amount of interest coverage and/or terminate the Stated Amount as the then outstanding Notes are paid; or

(c) issue the Final Drawing Notice (the effect of which will be to cause the Termination Date of the Letter of Credit to occur on the fifteenth (15) calendar day after the date of receipt thereof by the Issuing and Paying Agent); or

(d) pursue any rights and remedies it may have under the Basic Documents; or

(e) pursue any other action available at law or in equity.

ARTICLE 7

MISCELLANEOUS

Section 7.1 Amendments, Waivers, Etc. No amendment or waiver of any provision of this Agreement, or consent to any departure by the Commission therefrom, will in any event be effective unless the same is in writing and signed by the Bank and an Authorized Representative of the Commission, and then such waiver or consent is effective only in the specific instance and for the specific purpose for which given.

Section 7.2 Notices. All notices and other communications provided for hereunder must be in writing (including required copies) and sent by receipted hand delivery (including Federal Express or other receipted courier service), facsimile transmission or regular mail, as follows:

(a) if to the Commission:

City and County of San Francisco

Public Utilities Commission
Attention: Chief Financial Officer
525 Golden Gate Avenue, 13th Floor
San Francisco, California 94102
Telephone: (415) 554-3155
Facsimile: (415) 554-3161

(b) if to the Bank:

Bank of America, N.A.
800 Fifth Avenue, Floor 34
WA1-501-34-03
Seattle, Washington 98104-3176
Attention: Nancy Nuerenberg, SVP
Telephone: (206) 358-6279
Facsimile: (206) 358-8815

In the case of communications to the Bank with respect to drawings
under the Letter of Credit:

Bank of America, N.A.
1 Fleet Way, PA6-580-02-30
Scranton, Pennsylvania 18507
Attention: Standby Letter of Credit Department
Telephone: (800) 370-7519 OPT 1
Facsimile: (800) 755-8743

In the case of payments to the Bank:

Bank of America, N.A.
ABA: 026009593
A/C: 04535-883980
Reference: [_____]

or such other account as the Bank may from time to time designate in
writing to the Commission.

(c) if to Issuing and Paying Agent:

U.S. Bank National Association
100 Wall Street, 16th Floor
New York, New York 10005
Attention: Millie Rolla, Assistant Vice President
Telephone: (212) 361-2892
Facsimile: (212) 514-6841

(d) if to the Dealers:

At the address, telephone number
and telecopy number set forth in
each Dealer Agreement.

or, as to each Person named above, at such other address or telephone or telecopy number as is designated by such Person in a written notice to the parties hereto. All such notices and other communications will, when delivered, sent by facsimile transmission or mailed, be effective when deposited with the courier, sent by facsimile transmission or mailed, respectively, addressed as aforesaid, except that requests for Drawings submitted to the Bank will not be effective until received by the Bank.

Section 7.3 Survival of Covenants; Successors and Assigns. (a) All covenants, agreements, representations and warranties made herein and in the certificates delivered pursuant hereto will survive the making of any Drawing or Advance hereunder and will continue in full force and effect until all of the Obligations hereunder are paid in full. Whenever in this Agreement any of the parties hereto is referred to, such reference will, subject to the last sentence of this Section, be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of the Commission which are contained in this Agreement will inure to the benefit of the successors and assigns of the Bank. The Commission may not transfer its rights or obligations under this Agreement without the prior written consent of the Bank. The Bank may transfer or assign some or all of its rights and obligations under this Agreement, the Fee Letter, the Bank Note and the Letter of Credit with the prior written consent of the Commission (which consent may not be withheld unreasonably), *provided* that (i) with respect to the Letter of Credit only, the Commission has received written notice from at least two nationally recognized rating agencies that the transfer will not cause the lowering, withdrawal or suspension of any ratings then existing on the Notes, and (ii) the Bank shall be responsible for all costs solely relating to such transfer or assignment. This Agreement is made solely for the benefit of the Commission and the Bank, and no other Person (including, without limitation, the Issuing and Paying Agent, any Dealer or any holder of Notes) will have any right, benefit or interest under or because of the existence of this Agreement; *provided, further*, that the Commission's liability to any Participant will not in any event exceed that liability which the Commission would owe to the Bank but for such participation.

(b) Notwithstanding the foregoing, the Bank will be permitted to grant to one or more financial institutions (each a "*Participant*") a participation or participations in all or any part of the Bank's rights and benefits and obligations under this Agreement, the Bank Note, the Fee Agreement and the Letter of Credit on a participating basis but not as a party to this Agreement (a "*Participation*") without the consent of the Commission. In the event of any such grant by the Bank of a Participation to a Participant, the Bank shall remain responsible for the performance of its obligations hereunder and under the Letter of Credit, and the Commission may continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Agreement, the B and under the Letter of Credit. The Commission agrees that each Participant will, to the extent of its Participation, be entitled to the benefits of this Agreement as if such Participant were the Bank, *provided* that no Participant will have the right to declare, or to take actions in response to, an Event of Default under Section 6.1 hereof.

Section 7.4 Unconditional Obligations. The obligations of the Commission under this Agreement and under the Fee Agreement are absolute, unconditional, irrevocable and payable strictly in accordance with the terms of the Issuing and Paying Agent Agreement, this Agreement

and the other Basic Documents to which the Commission is a party, under all circumstances whatsoever, including, without limitation, the following:

- (a) any lack of validity or enforceability of this Agreement, the Letter of Credit, the Fee Agreement or the Notes or any other Basic Document;
- (b) any amendment or waiver of or any consent to departure from the terms of the Issuing and Paying Agent Agreement or all or any of the other Basic Documents to which the Bank has not consented in writing (unless pursuant to Section 5.2(a) hereof such consent is not required);
- (c) the existence of any claim, counterclaim, set-off, recoupment, defense or other right which any Person may have at any time against the Bank, the Commission, the Issuing and Paying Agent, any Dealer or any other Person, whether in connection with this Agreement, the other Basic Documents or any transaction related thereto;
- (d) any statement or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;
- (e) payment by the Bank under the Letter of Credit against presentation of a draft or certificate which does not comply with the terms of the Letter of Credit; and
- (f) any other circumstances or happening whatsoever, whether or not similar to any of the foregoing.

Section 7.5 **Liability of Bank; Indemnification.**

(a) To the extent permitted by the law of the State, the Commission assumes all risks of the acts or omissions of the Issuing and Paying Agent with respect to the use of the Letter of Credit or the use of proceeds thereunder; *provided* that this provision with respect to the Bank is not intended to and will not preclude the Commission from pursuing such rights and remedies as it may have against the Issuing and Paying Agent under any other agreements. Neither the Bank nor any of its respective officers or directors will be liable or responsible for (i) the use of the Letter of Credit, the Drawings or the Advances, the proceeds of the Notes or the transactions contemplated hereby and by the other Basic Documents or for any acts or omissions of the Issuing and Paying Agent or any Dealer, (ii) the validity, sufficiency or genuineness of any documents determined in good faith by the Bank to be valid, sufficient or genuine, even if such documents, in fact, prove to be in any or all respects invalid, fraudulent, forged or insufficient, (iii) payments by the Bank against presentation of requests for Drawings or requests which the Bank in good faith has determined to be valid, sufficient or genuine and which subsequently are found not to comply with the terms of this Agreement or (iv) any other circumstances whatsoever in making or failing to make payment hereunder; *provided* that the Commission is not required to indemnify the Bank for any claims, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by the gross negligence or willful misconduct of the Bank.

(b) To the extent permitted by the law of the State, the Commission indemnifies and holds harmless the Bank from and against any and all direct, as opposed to consequential, claims, damages, losses, liabilities, costs and expenses (including specifically reasonable attorneys' fees)

which the Bank may incur (or which may be claimed against the Bank by any Person whatsoever) by reason of or in connection with (i) the execution and delivery of this Agreement, the Fee Agreement, the Letter of Credit and the transactions contemplated hereby or thereby and (ii) any untrue statement or alleged untrue statement of any material fact contained in the Offering Memorandum prepared and distributed in connection with the Notes or the omission or alleged omission to state therein a material fact necessary to make such statements, in the light of the circumstances under which they are or were made, not misleading; *provided* that the Commission is not required to indemnify the Bank to the extent, but only to the extent, any such claim, damage, loss, liability, cost or expense is caused by the Bank's willful misconduct or gross negligence. The Bank is expressly authorized and directed to honor any demand for payment which is made under the Letter of Credit without regard to, and without any duty on its part to inquire into the existence of, any disputes or controversies between the Commission, any Dealer, the Issuing and Paying Agent or any other Person or the respective rights, duties or liabilities of any of them or whether any facts or occurrences represented in any of the documents presented under the Letter of Credit are true and correct.

(c) To the fullest extent permitted by applicable law, the Commission shall not assert, and waives, any claim against the Bank, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, the Letter of Credit, any other Basic Document or any agreement or instrument contemplated hereby or thereby, the transactions contemplated hereby or thereby or the use of the proceeds thereof.

(d) The obligations of the Commission under this Section 7.5 will survive the termination of this Agreement.

Section 7.6 Expenses. Upon receipt of a written invoice, the Commission shall promptly pay (i) the reasonable fees and expenses of counsel to the Bank incurred in connection with the preparation, execution and delivery and administration of this Agreement, the Letter of Credit, the Fee Agreement and the other Basic Documents as set forth in the Fee Agreement, (ii) the reasonable out-of-pocket expenses of the Bank incurred in connection with the preparation, execution and delivery and administration of this Agreement, the Letter of Credit, the Fee Agreement and the other Basic Documents (*provided* that such expenses to be paid in connection with the preparation and execution and delivery will not exceed the amount specified in the Fee Agreement), (iii) the fees and disbursements of counsel to the Bank with respect to advising the Bank as to its rights and responsibilities under this Agreement after the occurrence of an Event of Default and (iv) all costs and expenses, if any, in connection with the administration and enforcement of this Agreement and any other documents which may be delivered in connection herewith, including in each case the fees and disbursements of counsel to the Bank. In addition, and notwithstanding the foregoing, the Commission agrees to pay, after the occurrence of an Event of Default, all costs and expenses (including attorneys' fees and costs of settlement) incurred by the Bank in enforcing any obligations or in collecting any payments due from the Commission hereunder by reason of such Event of Default or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement in the nature of a "workout" or of any insolvency or bankruptcy proceedings. The obligations of the Commission under this Section 7.6 will survive the termination of this Agreement.

Section 7.7 No Waiver; Conflict. Neither any failure nor any delay on the part of the Bank in exercising any right, power or privilege hereunder, nor any course of dealing with respect to any of the same, will operate as a waiver thereof or preclude any other or further exercise thereof, nor will a single or partial exercise thereof, preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies herein provided are cumulative and not exclusive of any remedies provided by law. To the extent of any conflict between this Agreement, the Letter of Credit and any other Basic Documents, this Agreement will control solely as between the Commission and the Bank.

Section 7.8 Modification, Amendment, Waiver, Etc. No modification, amendment or waiver of any provision of this Agreement will be effective unless the same is in writing and signed in accordance with Section 7.1 hereof.

Section 7.9 Dealing with the Commission, the Issuing and Paying Agent and/or the Dealer. The Bank and its affiliates may accept deposits from, extend credit to and generally engage in any kind of banking, trust or other business with the Commission, the Issuing and Paying Agent and/or any Dealer regardless of the capacity of the Bank hereunder.

Section 7.10 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction, and all other remaining provisions hereof will be construed to render them enforceable to the fullest extent permitted by law. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic or legal effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 7.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which constitutes an original, but when taken together constitute but one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement may be delivered by the exchange of signed signature pages by facsimile transmission or by e-mail with a pdf copy or other replicating image attached, and any printed or copied version of any signature page so delivered will have the same force and effect as an originally signed version of such signature page.

Section 7.12 Table of Contents; Headings. The table of contents and the section and subsection headings used herein have been inserted for convenience of reference only and do not constitute matters to be considered in interpreting this Agreement.

Section 7.13 Entire Agreement. This Agreement represents the final agreement between the parties hereto with respect to the subject matter hereof and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties hereto as to such subject matter.

Section 7.14 Governing Law Waiver of Jury Trial.

(a) THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT UNDER, AND FOR ALL PURPOSES SHALL BE GOVERNED BY, AND CONSTRUED AND

INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICTS OF LAWS PROVISIONS (OTHER THAN NEW YORK GENERAL OBLIGATIONS LAWS 5-1401 AND 5-1402); *PROVIDED*, THAT THE OBLIGATIONS OF THE COMMISSION HEREUNDER SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA WITHOUT REGARD TO CHOICE OF LAW RULES.

(b) TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO WAIVES ITS RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE BASIC DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. IF AND TO THE EXTENT THAT THE FOREGOING WAIVER OF THE RIGHT TO A JURY TRIAL IS UNENFORCEABLE FOR ANY REASON IN SUCH FORUM, EACH OF THE PARTIES HERETO CONSENTS TO THE ADJUDICATION OF ALL CLAIMS PURSUANT TO JUDICIAL REFERENCE AS PROVIDED IN CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638, AND THE JUDICIAL REFEREE IS EMPOWERED TO HEAR AND DETERMINE ALL ISSUES IN SUCH REFERENCE, WHETHER FACT OR LAW. EACH OF THE PARTIES HERETO REPRESENTS THAT IT HAS REVIEWED THIS WAIVER AND CONSENT AND, FOLLOWING CONSULTATION WITH LEGAL COUNSEL ON SUCH MATTERS, KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS AND CONSENTS TO JUDICIAL REFERENCE. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT OR TO JUDICIAL REFERENCE UNDER CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638 AS PROVIDED HEREIN.

(c) The covenants and waivers made pursuant to this Section 7.14 are irrevocable and unmodifiable, whether in writing or orally, and are applicable to any subsequent amendments, renewals, supplements or modifications of this Agreement. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

Section 7.15 Governmental Regulations. The Commission shall (a) ensure that no Person who owns a controlling interest in or otherwise controls the Commission is or will be listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by the Office of Foreign Assets Control (“OFAC”), the Department of the Treasury or included in any Executive Order that prohibits or limits the Bank from making any advance or extension of credit to the Commission or from otherwise conducting business with the Commission and (b) ensure that the proceeds of the Notes are not used to violate any of the foreign asset control regulations of OFAC or any enabling statute or Executive Order relating thereto. Further, the Commission shall comply, and cause any of its subsidiaries to comply, with all applicable Bank Secrecy Act laws and regulations, as amended.

Section 7.16 USA PATRIOT Act. The Bank notifies the Commission that, pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Commission, which information includes the name and address of the Commission and other information that will allow the Bank to identify the Commission in accordance with the Act. The

Commission agrees to provide such documentary and other evidence of the Commission's identity as may be requested by the Bank at any time to enable the Bank to verify the Commission's identity or to comply with any applicable law or regulation, including, without limitation, the Act.

Section 7.17 Electronic Transmissions. The Bank is authorized to accept and process any amendments, transfers, assignments of proceeds, Drawings, consents, waivers and all documents relating to the Letter of Credit which are sent to Bank by electronic transmission, including SWIFT, electronic mail, telex, telecopy, courier, mail or other computer generated telecommunications and such electronic communication will have the same legal effect as if written and will be binding upon and enforceable against the Commission. The Bank may, but shall not be obligated to, require authentication of such electronic transmission or that the Bank receives original documents prior to acting on such electronic transmission.

Section 7.18 Assignment to Federal Reserve Bank. The Bank may assign and pledge all or any portion of the obligations owing to it hereunder and under the Bank Note to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, *provided* that any payment in respect of such assigned obligations made by the Commission to the Bank in accordance with the terms of this Agreement or the Bank Note will satisfy the Commission's obligations hereunder and/or under the Bank Note in respect of such assigned obligation to the extent of such payment. No such assignment will release the Bank from its obligations hereunder.

Section 7.19 City Requirements. The Bank agrees to the City's requirements, as provided in Exhibit D attached hereto.

Section 7.20 **Arm's Length Transaction.** The transaction described in this Agreement is an arm's length, commercial transaction between the Commission and the Bank in which: (i) the Bank is acting solely as a principal (*i.e.*, as a lender) and for its own interest; (ii) the Bank is not acting as a municipal advisor or financial advisor to the Commission; (iii) the Bank has no fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to the Commission with respect to this transaction and the discussions, undertakings and procedures leading thereto (irrespective of whether the Bank or any of its affiliates has provided other services or is currently providing other services to the Commission on other matters); (iv) the only obligations the Bank has to the Commission with respect to this transaction are set forth in this Agreement; and (v) the Bank is not recommending that the Commission take an action with respect to the transaction described in this Agreement and the other Basic Documents, and before taking any action with respect to the this transaction, the Commission should discuss the information contained herein with the Commission's own legal, accounting, tax, financial and other advisors, as the Commission deems appropriate.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Commission and the Bank have duly executed this Agreement as of the date first written above.

PUBLIC UTILITIES COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: _____
Name: Harlan L. Kelly, Jr.
Title: General Manager

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney of the City and
County of San Francisco

By: _____
Name: Mark D. Blake
Title: Deputy City Attorney

ACKNOWLEDGED:

Name: Nadia Sesay
Title: Director of Public Finance of the City
and County of San Francisco

BANK OF AMERICA, N.A.

By: _____

Name: Nancy Nuerenberg

Title: Senior Vice President